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## **ADMINISTRATIVE REFORMS COMMISSION**

### **R E P O R T OF THE S T U D Y T E A M**

**ON**

## **Financial Administration**

**VOLUMES I & II**

**MAY 1967**

PRINTED BY THE MANAGER, GOVERNMENT OF INDIA PRESS, FARIDABAD  
AND PUBLISHED BY THE MANAGER OF PUBLICATIONS, DELHI, 1968

*Price :*  
**Rs. 8.25 or 19 Sh. 3 d. or 2\$ 97 Cent.**

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*May 27, 1967*

DEAR SHRI HANUMANTHAIYA,

I have pleasure in forwarding herewith the Report of the Study Team on Financial Administration.

Yours sincerely,

B. VENKATAPPIAH

SHRI K. HANUMANTHAIYA,  
*Chairman,*  
*Administrative Reforms Commission,*  
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**VOLUME I**

**INTRODUCTORY**

**SECTION**

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## *CHAPTER I*

### INTRODUCTION

1.1. Our Study Team has been assigned the following subjects :

- (i) Budgetary reforms;
- (ii) The system of expenditure control, including procedures for sanctioning schemes and the problem of financial delegation and decentralisation; and
- (iii) Procedures governing financial relations between the Centre and the States.

The composition of the Team is as follows :

1. Shri B. Venkatappiah	<i>Chairman</i>
2. Shri N. N. Wanchoo	<i>Member</i>
3. Shri P. L. Tandon	"
4. Shri G. L. Bansal	"
5. Shri N. S. Pandey	"
6. Dr. D. T. Lakdawala	"

Shri J. C. Luther was appointed Secretary of the Study Team.

The relevant orders are reproduced in Appendix I.

1.2. In regard to the subjects allocated, the Study Team has been asked to "ascertain facts, locate the principal problem areas, examine solutions for the problems and suggest such of them as they would recommend for the Commission's consideration." Accordingly, as one of our very first tasks, we attempted to set down in a memorandum explicitly and in some detail what appeared to us to be the more important issues connected with each of the three subjects of enquiry. On the basis of this Memorandum (Appendix II), which both demarcated and mapped out the scope of our further investigations, we—

- (a) invited the views of knowledgeable persons, official and non-official;
- (b) held personal discussions with senior officers, Central and State (details of meetings in Appendix III);

- (c) initiated the collection of material and preparation of papers, on listed issues, by the secretariat of the Study Team; and
- (d) organised Working Groups for more intensive study of specific aspects of the enquiry.

It follows that, for the assistance they have rendered, we are indebted to several institutions and a considerable body of individuals. To such of them as it is practicable to mention by name, we acknowledge our thanks in the concluding portion (Chapter XIX) of this volume.

1.3. Meanwhile, it is necessary to say a word about the Working Groups to whom we are specially beholden because of the valuable material they have given us on the subjects of (i) Performance Budgeting and (ii) Centre-State Financial Relations. It will be seen from the relevant Chapters of our own Report that we have drawn heavily, both in substance and presentation, from the reports of the two Working Groups. In addition, we would make appreciative mention of the study paper (on the application of the principles of Performance Budgeting to a concrete instance) prepared by a research team of the Indian Institute of Management, Ahmedabad. The terms of reference and the composition of the Working Groups are set out in Appendix IV. The reports of the Working Groups as also of the team of the Ahmedabad Institute are set out in Volume II as accompaniments to this Report.

1.4. Volume I has 20 Chapters in all, divided into—Introduction (Chapter I), Part One (Budgetary Reforms : Chapters II to X), Part Two (Expenditure Control : Chapters XI to XIII), Part Three (Centre-State Financial Relations : Chapters XIV to XVIII); Acknowledgements (Chapter XIX) and Summary of Observations and Recommendations (Chapter XX).

1.5. In one phrase, the theme of our study is financial administration. Since financial administration is only a part of the total process of administration, it is governed by the same principal objectives, needs, and requirements as the system of administration as a whole. It is not our province, in the present study, to spell out these factors at any length; we are nevertheless concerned with them for the purpose of locating the “problem areas” of financial administration. In spite of a changing political context, two of the basic requirements continue to

be efficiency and economy within a framework of planned development, parliamentary control and federal inter-relationship. But efficiency and economy are themselves aspects of action or performance; and if there is one requirement today which is more important than any other it is that policies, programmes, and administration should all be oriented to performance. These are the main elements and, singly or together, they enter into our discussion of each individual topic in Parts One, Two and Three.

1.6. In Part One, we take up such problems of budgetary preparation, discussion, approval and execution as have an important bearing on administrative efficiency and economy on the one hand and, on the other, on the implementation of the programmes and policies of planned development. In so far as the present budgetary practices—including post-budget communication—delay action and therefore detract from efficiency, we attempt to analyse the causes and suggest remedies (Chapters VIII and IX). The same consideration, along with other relevant factors, is present in our mind in examining the suitability or otherwise of the present financial year (Chapter IV). The other Chapters in this part of the Report are concerned with rendering the budget more informative, more integrated with the processes of planning and of economic policies and, above all, a more efficient instrument of action and guardian of performance.

1.7. In Part Two, we deal with expenditure control—again in the light of the twin criteria of efficiency and economy—as only part, though an important part, of the total operational responsibility of the Government and the Parliament. The responsibility extends to the whole sphere of administration including planned development. Since that economy is costly which consists in doing nothing, our suggestions concerning control—whether by the Parliament or by the Finance Ministry—aim at preserving initiative and delegating real authority. Parliamentary control, as we envisage it for the future, would be related to a budget of action no less than to a budget of expenditure; and this consideration underlies the broad suggestions we have made not only in Part Two (Control by Parliament : Chapter XIII) but also in Part One (Performance Budgeting : Chapter III). We deal incidentally in this part of the Report, with public undertakings; but we refrain from doing so at any length since another Study Team is in charge of that subject.

1.8. Our pre-occupation in Part III is with the need to re-adjust and re-model financial procedures, institutions and concepts in line with

the changing requirements of the federal inter-relationship of the centre and States. Our view that a somewhat radical modification is needed is based, not so much on recent political developments, as on what we believe to be the lessons to be drawn from past experience. In particular, we have in mind the actual operation of the system of financial assistance and allocation to States for implementing their Plans. We have also in mind those factors of economic change and instability which have shaken the belief that a Five Year Plan is immutable for five years. Certain other important considerations arise in the light of the criteria we have mentioned. Not only are economy and efficiency all the more necessary in the context of planned implementation; together, these two factors make it essential that projects which involve large developmental investment should be completed without undue delay and extravagance and, above all, in practice yield the financial return on the expectation of which they have been formulated and sanctioned. If institutional measures are necessary for this purpose, they should be devised and adopted. Financial and other supervision is essential for projects such as those we have cited, as also for the country-wide implementation of the schemes of basic importance such as family planning. With regard to schemes of other categories, however, the position is in our view different. It would be both efficient and economical—besides being desirable for other reasons—to treat the State plans as the province of the State Governments, formulated in the light of agreed priorities but otherwise untied to any condition, so long as expenditure is within the limits of allocation. This also implies that some degree of certainty as to quantum and duration would have to be introduced into the process of allocation. Another implication of the consideration which we have urged is that the Plans themselves, whether at the Centre or in the States, would have to be based on a realistic estimate of resources. It is on these and similar premises that we have based the recommendations contained in Part Three of the Report. Our suggestions include the reorganisation of the Finance Commission and the establishment of a National Development Bank.

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**PART — ONE**  
**BUDGETARY REFORMS**

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## CHAPTER II

### OBJECTIVES OF A BUDGET

2.1. It has been said, "Whatever else a Government may or may not do, one thing it cannot avoid doing each year if it is to continue to exist : and that is to obtain the authority of Parliament to raise revenue to meet expenditure : which is done by the Budget and the accompanying Finance Bill."\*

2.2. The budget of a government is its financial blueprint for a specified period, normally twelve months. It is one of the chief instruments of financial control as well as the authorisation whereby the administration is enabled to carry out its policies and programmes. We summarise below some of the main objectives of the budgets of modern governments. In doing so we do not, of course, imply that all the aspects thus brought out should be incorporated or given equal emphasis in the Indian Budget.

2.3. (i) *Accountability*.—This has been the outstanding feature of the traditional budget. One of the well-established principles of our system of Government is that Parliament has the control of the purse and that taxes cannot be imposed or money spent without its approval. The annual budget is designed to secure Parliament's approval to the projected expenditure. It follows that the budgetary system has to be such as to ensure that the amounts voted by the legislature under the several heads of expenditure are not exceeded and that they are not spent otherwise than according to the wishes of the legislature. The objective here is to ensure the financial and legal accountability of the executive to the legislature and, within the executive, to enable the formulation of similar accountability on the part of each subordinate authority to the one immediately above in the hierarchy of delegation.

(ii) *Tool for Management*.—A budget may also be regarded as an operational document and, in that form, a valuable tool for management. The emphasis here is on programmes, activities and projects for which there is managerial responsibility in terms of cost, time and accomplishment.

(iii) *Functional Approach*.—A classification on functional lines is

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\*Bridges Lord, "The Treasury," Allen & Unwin, 1964, p. 188.

sometimes advocated. This would enable all items of expenditure in a particular field to be grouped under one functional category, e.g., education, national defence, etc., irrespective of the department or the agency which actually incurs the expenditure. It is argued that this will help to give a clearer picture than at present of the aggregate of the Government's effort in each field.

(iv) *Performance or Accomplishment*.—This is closely allied to the objective already discussed of the budget as a tool of management with the emphasis shifted from cash to cost and expenditure to achievement. The concept and technique of performance budgeting have been developed in the U.S.A. and in a few other countries. As already stated, the applicability of performance budgeting to our own conditions has formed the subject of study by one of our Working Groups. Our own recommendations are set out in Chapter III.

(v) *Correlation with Plan*.—In the context of the planned economy of a developing country, the term 'accountability' has a broader connotation than in its ordinary usage. It is not concerned merely with the verification of due sanction and approved purpose for expenditure incurred by the relevant authorities. It extends to ensuring that the annual programmes and achievements are set out and implemented in terms of the long-term Plan and its goals. Annual accountability remains, but is part of a long-term responsibility for executing the Plan.

(vi) *Economic Analysis*.—In recent years, emphasis has been increasingly placed on the development of a proper system of budgetary classification of government transactions from the point of view of economic analysis. The budget, it is argued, should bring out the impact of the incomings and outgoings of a government on the behaviour of the national economy as a whole. It should enable a determination of how much of the national income has its source in government activities and what the extent of capital formation and asset creation is as result of governmental operations. In setting out the budget data, therefore, account should be taken of significant economic categories, such as consumption expenditure, transfer payments, capital investment, etc.

(vii) *Instrument of fiscal policy*.—In one of its most important aspects, the budget is a tool of fiscal policy, i.e. an instrument for consciously influencing the economic life of the community. The levels of taxation and expenditure which are regulated through the budgetary process are among the main devices for pursuing desired aims such

as the development or stabilisation of one or more sectors of the economy. This indeed is not an isolated objective so much as a characteristic of the modern budget itself in so far as it makes an automatic contribution to the nation's fiscal policy.

2.4. To sum up, besides being the most important annual item on the agenda of Parliament, the budget serves a number of purposes, fiscal, financial and economic, administrative, managerial and developmental, in terms of each State and of the country as a whole. It is a document for parliamentary action and an instrument of parliamentary control. It is a management tool and a basis for administrative delegation. It sets out a programme of development and enables the adjudgement of performance. These objectives are not mutually exclusive. But, if there is one over-riding need today it is that all governmental processes—including the budgetary process—should be oriented to action and performance : action that achieves optimum results, and performance that involves not more than reasonable cost, effort and time. The next Chapter accordingly deals with Performance Budgeting.

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## CHAPTER III

### PERFORMANCE BUDGETING

3.1. Performance budgeting is essentially a technique of presenting Government operations in terms of functions, programmes, activities and projects. By means of this classification, the individual items which make up the budget are sought to be shown not only in financial terms but, as far as possible, in physical terms as well. As observed by the Hoover Commission in their (1949) Report "such an approach would focus attention upon the general character and relative importance of the work to be done or upon the service to be rendered, rather than upon the things to be acquired, such as personal services, supplies, equipment, and so on. These latter objects are, after all, only the means to an end. The all-important thing in budgeting is the work or the service to be accomplished, and what that work or service will cost."

3.2. Among the purposes sought to be served by performance budgeting, the following are the most important :

- (a) to present more clearly the purposes and objectives for which the funds are sought and to bring out the programmes and accomplishments in financial and physical terms,
- (b) to help a better understanding and better review of the budget by the Legislature,
- (c) to improve the formulation of the budget and to facilitate the process of decision making at all levels of Government,
- (d) to enhance the accountability of the management and at the same time to provide an additional tool to management for control of financial operations, and
- (e) to render performance audit more purposeful and effective.

3.3. Though the technique has great potentialities, it is not without limitations, the most important being its restricted value in respect of activities and governmental operations that are not measurable in any precise manner, as for example, law and order, external affairs and research. Also, it enables only a quantitative and financial evaluation of programmes and activities; qualitative evaluation is beyond its scope. Again, the success of the technique depends upon the existence

of well-organised departments and organisations identifiable with definite programmes and activities. In actual practice, however, a complete congruence of functions, programmes and activities with organisational units is not easy to achieve. The limitations, though substantial are, in our opinion, out-weighed by the advantages mentioned earlier.

**3.4.** For concrete illustrations of performance budgeting, as well as for a detailed treatment of other aspects of the subject, we would invite a perusal of the Report of the Working Group on Performance Budgeting (included in Volume II of this Report). The Working Group propose the adoption of this method of budgeting in a phased manner. We endorse their main conclusion and recommend that performance budgeting be introduced at an early date. It should, however, be a gradual process extending over a few years. A review should be undertaken after a reasonable interval in order to assess the progress made and consider the further extension of performance budgeting. It is, of course, necessary that adequate preparatory steps should be taken for the introduction of the system. We endorse the Working Group's suggestions in this connection. The following among other steps have been recommended by them :

- (i) The Finance Ministry should assume responsibility for introducing the system and coordinating the stages.
- (ii) In the phased application of this system both at the Centre and in the States, priority may be given to departments and organisations which are in direct charge of programmes or activities (developmental or other) involving large expenditure.
- (iii) The analysis of the functions, programmes, etc of the departments selected may, as suggested by the Working Group, be entrusted to a team consisting of officers drawn from the Ministry of Finance, the administrative Ministry concerned and the Management and Administration Division of the Planning Commission. In addition we would suggest that an officer of the Audit Department might also be associated with this team.
- (iv) A suitable training scheme may be devised for those who, at different levels, will be concerned with the introduction of the schemes; and a manual prepared as soon as practicable.

- (v) Appropriate changes in the accounting system would be needed to meet the requirements of performance budgeting. These aspects have been analysed at some length in the Report of the Working Group. Detailed recommendations on this subject are, we understand, being made by the Study Team on Audit and Accounts.
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## CHAPTER IV

### THE FINANCIAL YEAR

4.1. There was one successful effort, followed over the decades by many unsuccessful ones, to change the Indian financial year. And the centenary of the successful effort, if it were to be celebrated, would fall exactly in the current year, 1967. For it was in 1867, and beginning with the budget for 1867-68, that the financial year which had previously been from 1st May to 30th April was changed in conformity with the British practice to one commencing on 1st April and ending on 31st March. Second thoughts supervened almost immediately. But they proved ineffectual. Once every ten years or so thereafter and more recently as an almost annual feature, different suggestions have been made from different quarters for a change in the financial year. Before summarising these it might be useful to indicate the practice obtaining in other countries. This is as varied as there are quarters in the calendar. In other words, 1st April, 1st July, 1st October and 1st January are all pressed into use for marking the commencement of the financial year.

4.2. We may first illustrate from some of the countries of the East. In Japan and Iraq, as in India, the financial year begins on 1st April. In Pakistan the date of commencement has been changed from 1st April to 1st July. In Burma and Ceylon, it is 1st October. (It is interesting to note in this context that, in many parts of India, the indigenous financial year starts at Diwali, i.e., somewhere in October-November). In China it is 1st January.

4.3. In the U.K., Ireland, New Zealand, South Africa, Germany and Denmark the financial year starts on 1st April. (So also in Canada, where however, it had undergone successive changes : 1st January, thereafter 1st July and now 1st April). In the U.S.A. it is 1st July; so also in Australia, Norway, Sweden and Italy. In France, Belgium, and the Netherlands, in Finland and in Russia, it is 1st January; so also in several of the South American countries, including Argentina, Brazil and Chile.

4.4. To resume the account of the efforts to change the Indian financial year. it may be mentioned that the first review was made by

the Secretary of State as early as in 1870, *i.e.* only three years after the change had been effected. The question of revision continued to be raised thereafter. For instance, it was mooted by the Welby Commission in 1900. But the Government decided not to make any change at that stage. The matter was again raised in 1913 by the Royal Commission on Indian Finance and Currency (generally known as the Chamberlain Commission) who, referring to the need for more accurate budgeting, observed as follows :

"The revenues of India, whether shown under railways or customs or directly under the head of land revenue, fluctuate to an extraordinary extent with the success or failure of the agricultural operations of each year, and these again depend predominantly on the south-west monsoon which spreads over the Indian continent and Burma in the months of June to October. Under present arrangements the Indian budget is presented before the end of March, and the Finance Member accordingly has to prepare his estimates in ignorance of the most important factor on which the results of the year will depend. The late Finance Member of the Viceroy's Council, indeed, has described the framing of a budget as a gamble in rain. We would observe, however, that the description applies only because the budget is taken before the monsoon. It is clear in fact that from the financial point of view the present date is almost the most inconvenient possible for the budget, and the suggestion has therefore been made that the date of the beginning of the financial year should be altered from the 1st April to the 1st November or 1st January."

This suggestion, viz., that the financial year should commence from 1st November or 1st January, was commended by them to the Government of India for consideration. The First World War broke out in 1914 and the consideration was postponed. The question was taken up again in 1921 on the suggestion of Sir Dinshaw Wacha, who advocated the adoption of the calendar year for the closing of accounts. The Government of India thereupon consulted the Provincial Governments, the Chambers of Commerce and other bodies and in their circular letter dwelt at some length on the advantages and disadvantages of the proposal. The Provincial Governments were almost un-

animously opposed to any change, while commercial opinion was divided. In view of this, the Central Government dropped the proposal for a change. The matter was raised again in 1926 and in 1927 by members of the Legislature, but without much success.

4.5. The subject once more became a live issue after Independence. It was taken up for consideration in 1954 at the instance of the Prime Minister who referred to a non-official resolution brought before the Congress session at Kalyani asking for the financial year to commence from 1st July. The matter was examined again and the considerations which weighed with Government in rejecting the proposal for a change were as follows : Firstly, although the south-west monsoon was the principal monsoon, substantial areas depended for their prosperity on the north-east monsoon; and if 1st April by-passes the former, 1st July by-passes the latter; indeed no date could claim all-round suitability from this point of view. Secondly, the convenience of the members of the Legislature, which was one of the grounds urged for a change, could be provided for by adjusting the legislative programmes in such a way that the members got sufficient time to tour their constituencies. The question was raised again at the meeting of the National Development Council held in 1956. Among the Chief Ministers who pressed the desirability of a change were those of U.P., West Bengal and Kerala. The decision was once more in favour of the *status quo*. An additional argument was that any change in the financial year would necessitate changes in the assessment years of companies for purposes of income-tax and corporate tax and cause dislocation all round. Subsequently, the Estimates Committee of the Second Lok Sabha in their 20th Report (1958) recommended that the financial year may commence from 1st October. The question has since then come up on more than one occasion. The latest is that, in their draft outline of the Fourth Plan, the Planning Commission have suggested that a fresh examination be made in the light of present needs.

4.6. It would be useful to set down briefly at this stage the reactions of the representatives of the several State Governments with whom we had an opportunity of discussing this subject. The representatives were in all cases senior officers of the Governments concerned and in most cases their Finance Secretaries. We must mention, however, that the opinions did not necessarily represent the considered viewpoints of their Governments. Moreover, since the discussions for

the most part took place in January, 1967, the views in question would in no way be attributable to the present Government of the States. Even so, it is of great interest to classify the points of view expressed and to analyse to such extent as possible the reasons underlying them. With the reservations mentioned above, it may be said that four State Governments, viz., Madras, Mysore, Punjab and Jammu and Kashmir (the last two in their written replies) were definitely in favour of retaining the *status quo*. All of them were of the view that there was no particular advantage to be gained by disturbing it. If, however, a change was in any case to be made, Madras was in favour of 1st July, while Mysore was undecided as between 1st January and 1st July : the former seemed preferable for arriving at a better forecast of revenues, whereas the latter, in their view, would facilitate better execution of programmes. Of the States which made positive recommendations for a change the largest single number were in favour of 1st July. These were Maharashtra, Uttar Pradesh, Kerala, Assam and Orissa. West Bengal, represented by different officers, put forward three alternatives, viz., *status quo*, 1st July and October. Three States favoured 1st October; these were Madhya Pradesh, Gujarat and (with the 1st November also as an alternative) Andhra Pradesh. The last-mentioned State pointed out that in Indian conditions the traditional financial year beginning at Diwali or thereabouts would be the most appropriate. The two States in favour of 1st January were Rajasthan and Bihar.

4.7. The reasons urged by the State representatives in favour of the different alternatives may now be briefly indicated. It was clear that the four considerations foremost in the minds of the officers were :—

- (i) Accuracy of revenue estimates in the budget.
- (ii) Accuracy of expenditure estimates in the budget.
- (iii) Efficacy of performance.
- (iv) Convenience of legislators and administrators.

Those in favour of the *status quo* in effect argued that no single alternative would secure all the advantages mentioned above even if this was considered from the point of view of any one particular State. Further, if any single criterion, e.g., accuracy of revenue receipts, was taken up and applied to different States, it would result in different dates being chosen for the different States for the commencement of

the financial year; this was because, while the south-west monsoon was the most important for the larger part of the country, the north-east monsoon was significant for other areas and no financial year could be devised which did not straddle the two monsoons. In the result, it was thought by these representatives that there was no particular advantage in seeking a change in the present position. Asked specifically whether there need necessarily be uniformity in this matter, (a) between the Centre and the States and (b) between the States themselves, the answer, almost invariably was that uniformity was certainly most desirable in both these contexts. If this is accepted—and we agree with the view expressed—the question of different States choosing different financial years (and the Central Government perhaps another) does not arise. We have to proceed on the basis of uniformity. Assuming then that the Centre and all the States will either adhere to the present position, or together choose one of the three alternatives available, the advocates of *status quo* urge that the balance of advantage lies in retaining it. This is because, apart from the merits of any particular alternatives, the disturbance of the *status quo* is bound to result in some dislocation, small or large, in a number of respects : administrative, accounting and statistical. It is in effect pointed out that, other things being equal, there is an in-built reason for adhering to the *status quo*. The retention of the present financial year has also been supported by most of the Secretaries to the Central Government with whom we had an occasion to discuss this question.

4.8. The States which urge the adoption of the calendar year as the financial year argue that, after allowing for the time lag between estimates and presentation, it is only a budget presented on or about 1st January that can incorporate in its forecast of revenue the most adequate knowledge of the effects of the main monsoon. They also feel that a budget which comes into effect on 1st January, as compared with 1st April, cuts less into the working season available for the execution of schemes.

4.9. The emphasis of those who advocate 1st July, equally with those who favour 1st October, is on performance. In both cases, it is agreed that the working season is roughly from October to May and that there will be dislocation if this period was broken up by the budget. Those who prefer July, however, are of the view that, after the sanction of the budget, two or three months should be allowed—

not necessarily for the communication of budget provisions and appropriations—but in particular for the purpose of providing adequate time for all the preliminary steps associated with new works. These include calling for tenders, approval of contracts, ordering of stores and so forth. As distinguished from this, those who advocate 1st October urge the added advantage of utilising the monsoon months from June to August for the concluding stages of the preparation of the budget; the budget would be discussed towards the end of August and passed by the end of September. For one thing, as distinguished from a July budget, this would save both the budget staff and the legislators from having to devote the hottest months of the year to the preparation and discussion, respectively, of the budget. It has to be added that the sheer administrative job of timely communication of budget appropriations passed by the Legislature to the authorities in charge of execution at the field level is reportedly a problem for certain States and (according to their account) not a serious matter at all for other States. Those for whom it is a problem would prefer 1st July, because it could then be assured that by October—when work would be started—all sanctions would have percolated to those in immediate charge of execution. The States which do not regard this as a problem are on the whole inclined to prefer 1st October, except where they consider it desirable to provide for a time lag for tenders, contracts, purchases, etc.

4.10. We may now try to sum up briefly the relative advantages of the different alternatives in the light of the criteria enumerated in para. 4.7 :

(i) *Accuracy of the revenue estimates in the budget.*—Agriculture and therefore the monsoon—especially the south-west monsoon—are still important, though not as important as in the past, from the point of view of revenue estimates. This is true of the Central Government to the extent, for example, that many excises—and so too many export duties—are based on agricultural commodities such as sugar, tobacco, tea and jute. It is also true of the sales taxes of many States. But if what was at issue, however, was land revenue, one has to take note of its dwindling significance in the total size of the State budget. With these reservations, it may be said that for accuracy in this context :

- (a) the most suitable date is 1st January, while 1st October is only slightly less so.

(b) 1st April is the least suitable, while 1st July is only slightly better.

(ii) *Accuracy of expenditure estimates in the budget.*—A preliminary point is whether severe drought, and acute food shortage resulting therefrom, should or should not hereafter be regarded as features likely to recur fairly often. If the answer is in the affirmative, then this becomes one of the principal causes of expenditure both at the Centre and in the States; and the monsoons, especially the southwest one, become very important. In that event, again as in (i) above, the most suitable budgets are those commencing on 1st January or, as the next priority, 1st October. Also, 1st April would be the least suitable and 1st July only slightly better.

But if severe droughts are to be regarded as an exceptional feature on which normal budgetary arrangements need not be based, there would have to be an entirely different angle on accuracy in expenditure estimates. This would then depend, firstly, on the extent to which the budget estimates are based on knowledge of the revised estimates of the current year, and secondly, on how far the available revised estimates cover that part of the working season which falls within the current budget year. Since the working season is October-May and since three to four months have usually to be allowed for in order that current data may influence the next year's estimates, it seems clear that the best budget from this point of view is that which begins from 1st October. Next in order of priority would be 1st July. The worst would be 1st January, while 1st April would be slightly better.

(iii) *Efficacy of performance.*—The efficacy is in terms of what is done or not done by officers in the field. This has to be considered for different categories of works :

- (a) New works, for the first time provided for in the budget.
- (b) Continuing projects only partly completed during the current year and in fact expected to be only partly completed; and for which, therefore, a budget provision has been made for the next year.
- (c) Individual projects expected to be completed during the year which is current and therefore not figuring in the budget, but which nevertheless, for unforeseen reasons,

have not been completed and would therefore be carried forward to the next year; and

- (d) Continuing works (*e.g.* road maintenance) for which no line can be drawn between one budget and another, and provisions for which invariably continue from budget to budget.

This categorisation is important because it has a bearing on factors which hinder or facilitate performance :

Category (a) raises the question both of preparatory steps (contracts, stores etc.) and the communication of budget grants to the executives in the fields. We are, however, of the view that the preparatory steps in question are not a serious or universal problem. Further, it is only in exceptional cases that as many as three months would be required for the completion of these steps.

Category (b) raises only the question of the communication of budget grants. Where the system of communication operates efficiently, there should be no dislocation of work on account of an apprehended "lapse of grants".

Category (c) involves greater difficulty. The field authorities have to be assured that they can go ahead even though there is no budget provision; and before giving such an assurance the higher authorities have themselves quite often to seek the sanction of the Finance Ministry (for a possible supplementary demand etc.). Any budget year—or any budgetary or administrative arrangement—which tends to increase the number of instances in category (c) is obviously not desirable from the point of view of performance.

Category (d) usually presents no difficulty, provided the system of communication of budget grants is tolerably efficient. Moreover, it is in regard to this category of works that most field officers feel confident that they can proceed with the work without undue risk of later incurring the displeasure of authority.

Taking a total view of these categories and giving due weight to the more difficult ones—since these are the weak points in execution—

we feel that, from the point of view of efficacy of performance, 1st October and 1st July are equally suitable. The least suitable date is 1st April, while 1st January is only to some extent better.

(iv) *Convenience of Legislators and Administrators.*—This may be looked at from two angles :—

- (a) suitability from the point of view of presenting and passing the budget; and
- (b) suitability from the point of view of a legislator who desires to be in touch with his constituency.

So far as (a) is concerned, the least suitable alternative seems to be 1st July since the budget would have to be prepared and passed in the heat of the summer; none of the other dates is open to much objection, though 1st January would probably be the most congenial, while 1st April on the one side and 1st October on the other would not come far behind, each having something to commend it.

As regards (b), the desideratum would be for the legislator to be as free as possible to tour his constituency—and for the administrators to attend to their other duties—during the fair season, *i.e.* October to May. The arrangement that would best ensure this would be a budget that comes into force on 1st July or 1st October. Neither 1st January nor 1st April would be suitable from this point of view.

4.11. We have thought it desirable to analyse at some length the various criteria which—not always explicitly—are in the minds of those who advocate one or another alternative for a change in the financial year as well as of those who urge a continuance of the *status quo*. The alternatives are several and the criteria to be applied many. The conclusion one may reach is, in the last analysis, a matter of priorities. Should the accent be on the efficacy of performance or the accuracy of revenue budgeting? On the convenience of legislators or the accuracy of expenditure estimation? Since no one solution reconciles all these, what particular balance of advantage should be regarded as justifying a disturbance of the *status quo* with its attendant disadvantages? We have considered these questions and feel that, if the *status quo* is to be changed, the balance of advantage would lie in favour of 1st October, more especially from the point of view of performance on which we lay emphasis throughout this report.

## CHAPTER V

### BUDGET ESTIMATES

5.1 Sound budgeting involves, among other things, sound estimating. The soundest estimates—whether of receipts or expenditure—may in the event turn out to be not wholly accurate. But they should not be avoidably inaccurate. In other words, the estimates should be arrived at by applying as scientific methods as possible to as up-to-date data as obtainable. The constant improvement of both these factors—methods and data—is of great importance. For instance, the criticism is sometimes made that there is a tendency to under-estimate revenue receipts and over-estimate expenditure. One consequence of such “conservative” budgeting, it is pointed out, is unnecessary taxation. Method and data will enable budget-makers to steer the middle course between too much caution and too great an optimism. We understand that, so far as revenue estimation is concerned, the Board of Direct Taxes and the Board of Central Excise and Customs have been taking measures for the improvement of the system generally, as well as of the procedures relating to individual items or groups.

5.2 In response to certain suggestions made by the Public Accounts Committee, the Board of Excise and Customs have also taken preparatory steps for the reorganisation of their Statistics and Intelligence Branch. Executive instructions have been issued for taking into account all the relevant factors like the starting of new factories, the expansion of the existing units, the availability of raw materials, the conditions of agricultural crops and changes in the pattern of consumption, production etc. in the preparation of estimates.

5.3. Different methods are employed, singly or in combination, for forecasting revenue. Under one of these, the rule of the penultimate year, the revenue estimates for the budget year are based (with necessary modifications) on the actual revenues for the fiscal year last ended. For instance, in preparing the revenue estimates for 1967-68 the figures of actual revenue used would be those pertaining to 1965-66, which is the last completed year for which such figures are available. Another technique, known as the method of averages, takes as the basis the average of a three-year or five-year period that has preceded. A third method is that of “direct valuation” where

the emphasis is shifted from the past figures of revenue to all such current economic data—e.g., production, prices, consumption, exports, etc.—as will make possible an assessment of the relevant trends during the budget year and, on the basis of those trends, enable direct estimation of revenue receipts under the particular major head of revenue.

5.4. These methods are not mutually exclusive and each has its place in the scientific forecasting of revenue. The last is the most comprehensive, but depends for its success on the coverage and accuracy of the statistics available. We recommend that the two Boards review, from this angle, the adequacy of the statistical data now available to them and take measures to supplement them where necessary.

5.5. Several factors contribute to the inaccurate forecasting of expenditure, which usually takes the shape of overestimation. Mention may be made of some of them :

(i) Over-estimating is partly due to psychological reasons. First, there is undue optimism as to how much can be executed (and therefore how much can be spent) during the course of the year. Second, there is often an apprehension—usually born of past experience—that the departmental figure is likely to undergo pruning at some stage or the other during the long budgetary process and must, therefore, be pitched high enough to allow for the probable reduction.

(ii) There are certain departmental formalities which are time-consuming. There is delay, sometimes extending over several months, in the issue of formal sanctions to the schemes or projects owing to the time taken in obtaining clearance from the Finance Ministry. Then there are procedural delays all along the line : for example, the procedure regarding the industrial licensing, clearance from the indigenous angle from the Directorate General of Technical Development, clearance from the Capital Goods Committee, the Chief Controller of Imports and Exports, the Central Water and Power Commission, the Planning Commission, etc. There is also delay in communicating the sanctions to the Project authorities from the various intermediary levels. All this results in substantial deferment of execution and therefore considerable underspending.

(iii) Expenditure estimates sometimes go awry because of the default of contractors or of suppliers of plant, machinery or equipment. Though the completion or delivery dates are specified in the contracts and provision is usually made for a penalty in the case of failure to

complete the work or deliver the goods on these dates, delays often occur on the part of contractors as also of suppliers, both indigenous and foreign. Some of the causes of delay are beyond the control of the contractors and suppliers; but quite often the delay can be traced to wholly avoidable reasons.

(iv) An important cause of delay is the procedure involved in obtaining the releases of foreign exchange.

5.6. Some of the factors we have mentioned above—as underlying either delay in execution or inaccuracy in budgeting—are inherent not so much in the administration, as in the situation generally. For them, therefore, no administrative remedy is really applicable. But there are a number of administratively avoidable factors which contribute to both delay and inaccuracy. There can and should be an attempt from all levels to counteract them. Our suggestions are two-fold :

(i) We consider that managerial techniques such as PERT (Programme Evaluation and Review Technique) and C.P.M. (Critical Path Method) should be introduced as early as possible in Government projects and Government Departments, especially those concerned with the execution of relatively big schemes. Among other things, the adoption of these methods should lead to a much larger measure than at present of calculated control over points of crucial delay—to the extent such points are controllable—and, in the same process, to a much reliable estimate than now obtains of the twin factors of time and expenditure.

(ii) We elsewhere suggest that administrative Ministries should assume near-autonomous control over their own budget grants, this in turn implying much greater individual responsibility than at present of the Department or Ministry concerned in regard to the framing of its own budget. This responsibility cannot be discharged unless each such administrative organisation—Ministry, Department or Office—has, where its size justifies this, a well-equipped Budget Cell with a minimum of financial and accounting officials trained in conventional and performance budgeting. When these Cells begin to operate in the manner envisaged, one of the results should be a very large reduction in that type of over-estimation of expenditure which is traceable to out-of-date data, imperfect techniques and, lastly, inadequate familiarity with the practical aspects and vicissitudes of the schemes and projects for which estimates are framed.

## CHAPTER VI

### BUDGET IN PARLIAMENT

6.1. We may now consider some of the procedures in Parliament in so far as they concern the Budget. One point that is sometimes urged is that ways and means should be devised for providing fuller opportunities to the members of Parliament to discuss the budget and make an effective contribution to the policies underlying the budget provisions. To this end, many suggestions have been made from time to time.

6.2. One proposal is that the Standing Finance Committee, which had been abolished in 1952, be revived. The 20th Report of the Estimates Committee (Second Lok Sabha—1957-58) puts the case for the revival as follows :—

“It might be a distinct advantage both to Government and Parliament if this Committee is revived. It might have the authority to scrutinise such new items of expenditure above a certain limit as the Government might place before it before they are included in the Budget. The Committee might, however, be purely advisory and Government need not be bound to accept all its suggestions or its criticism. Even then it would provide an opportunity to members of Parliament to study the problems in their proper perspective and thus enable them to offer well-informed criticism on individual schemes in a manner which cannot otherwise be in the Parliament. Besides, this also would enable public participation in the drawing up of the schemes for inclusion in the Budget.”

The suggestion was not accepted by Government, who felt that the situation had materially changed after Independence. As in the British system, the executive was now fully responsible to Parliament, and Parliament itself had numerous opportunities of discussing important policy matters as well as important executive decisions. On careful consideration, we feel that the question of the revival of the Standing Finance Committee need not be pursued.

6.3. Another suggestion which is sometimes made is that, as in the United Kingdom, the budget could be discussed by a Committee of

Supply into which the whole House would convert itself while performing this duty. The advantage urged is that the procedure would be much more informal than if the House was in session as Parliament. Our view is that discussions in Parliament are not, as it is, unduly restrained by formality and that the device of a Committee of Supply would be an unnecessary refinement.

6.4 Another point urged for consideration is whether the number of days allotted for discussion of the budget proposals by the House might not usefully be increased. The budget is presented to the Legislature on the last day of February and the whole process from the presentation of the budget to the passing of the Appropriation Bill is gone through during a period of nearly two months. There is no reason to consider this too short a period if the emphasis is, as in our opinion it ought to be, on the prompt execution of the budget no less than on its adequate discussion. Any device which has the effect of putting off to a late date the sanction of budget grants, and thereafter the communication of such grants to the executive levels would be retrograde from the point of view of performance. While, therefore, we feel that the passing of the budget should not be delayed beyond what obtains under the prevailing procedure, we would at the same time point out that the allotment of more time for discussion, if that is thought to be necessary can be provided by Parliament by suitable regulation of its internal business.

6.5. One reform may be suggested. The discussion on a demand is usually more informed and purposeful if initiated by the Minister concerned and if, in his introductory remarks, he explains the policies underlying the estimates, the physical programmes planned, the performance, if any, during the preceding year and so forth. The practice which we now commend was in fact recommended in the past by the Estimates Committee. It is understood, however, that it has not been generally adopted. We would recommend that it be made the invariable rule.

6.6. We deal elsewhere with the *control* of expenditure by Parliament (and State Legislatures) through the machinery of their own committees—such as the Public Accounts Committee—and on the basis of the Audit Report, the Appropriation Accounts and the Finance Accounts (prepared separately for the Union and State Governments) by the Comptroller and Auditor General. We propose here to make one or two other suggestions.

6.7. The duty of presenting a report on the accounts of the Union and the States has been laid on the Comptroller and Auditor General by the Constitution, while other instructions lay on him the obligation of presenting the Appropriation accounts and Finance accounts to the Governments concerned. While the executive instructions provide for the Comptroller and Auditor General submitting the Appropriation and Finance accounts on such date as he may with the concurrence of the Governments concerned determine, no such stipulation has been made in the Constitution with regard to the submission of audit reports on these accounts. In the constitution of a number of countries, however, there are provisions prescribing the dates by which these reports are to be submitted by the Comptroller and Auditor General to the Treasury or to the Legislature. In India also the question of submitting by a prescribed date the Appropriation Accounts, Audit Reports etc., by the Comptroller and Auditor General has been raised in some State Legislatures, but in the absence of specific provision in the Constitution the question was not pursued further. Similarly, some cases of delayed submission of these documents by the State Governments to their respective Legislatures have also arisen in the past. It is, in our view, desirable that specific dates should be fixed by which the Appropriation Accounts and Audit Reports should be submitted—(a) by the Comptroller and Auditor General to the Finance Ministry; and (b) by the Finance Ministry to Parliament. We recommend that a provision to this end should find a place in the Bill governing the functions & duties of the Comptroller and Auditor General which is under the consideration of Government. We would further suggest that the Comptroller and Auditor General should be required to forward his report to the Finance Ministry by a definite date, say, 15th January and the latter to submit it to Parliament by 31st January. These suggestions apply *mutatis mutandis* to the State Governments and Legislatures also.

## *CHAPTER VII*

### BUDGET, PLAN AND ECONOMIC ANALYSIS

#### A. CORRELATION BETWEEN THE PLAN AND THE BUDGET

7.1. At present there is a lack of correlation between the development heads in the Annual Plan and the budget heads. This applies to both the Central budget and the State budgets. The outlays under the Plan are exhibited under the heads of development prescribed by the Planning Commission, while in the budget all items of expenditure are shown according to the heads of account prescribed in consultation with the Comptroller and Auditor General. Although the expenditure on the Plan schemes is exhibited separately in the budget, the development heads adopted in the Plan are at variance with the major heads adopted for budgeting and accounting purposes. Besides, the expenditure on various Plan schemes under a head of development is reflected in the budget under more than one major head falling under the Revenue Account, the Capital Account and also under Loans and Advances. This lack of direct correlation between the Plan and budget heads not only renders it difficult and cumbersome to follow with real understanding the financial provisions made in the budget for Plan schemes, but also in relation to scheme in State Plans gives rise to special problems in the matter of regulating Central assistance. For these reasons, it is necessary to bring about better integration between the account heads of the budget and the development heads of the Plan, keeping in view all the relevant considerations.

7.2. There is another important factor which emphasises the need of a better nexus between the account heads of the budget and the development heads of the Plan. Under the existing procedures the release of Central assistance to the States in respect of Plan schemes is regulated on the basis of departmental figures of expenditure incurred under different heads of development. But the final adjustment of such assistance has to be done on the basis of audited figures of expenditure. For this purpose, it is essential for the Audit authorities to have before them (a) a statement of approved schemes included in the annual plan of the State, (b) particulars of the provision made for agreed schemes under the various budget heads of accounts and (c) the actual expenditure incurred under each of these heads. Similarly, whenever any

changes in the plan schemes are made during the course of the year, a list thereof would need to be supplied to the audit. It is, therefore, necessary for the purposes of final determination of Central assistance, that a proper link should be established between the budget heads of account and heads of development.

7.3. An important principle of classification of Government transactions is, however, that the heads of account should correspond to the Departments concerned with the raising of revenue or the incurring of expenditure. The provision for a particular scheme is made in the budget estimates,—and the expenditure thereon is debited to the grant —of the department in charge of the schemes irrespective of the head of development in the Plan. In view of this accepted principle, it is not practicable to recast the budget completely in terms of the development heads. What can, however, be attempted is a greater measure of uniformity in classification. This involves the modification of some of the existing minor heads, sub-heads and detailed heads—or in some cases the opening of new ones—to harmonise with the Plan heads of development. Another suggestion in this connection is that the existing heads of development should be placed (with slight modifications) below the revised functional groupings and the related major heads put under the various heads of development. Both these suggestions would involve a number of modifications in the existing major heads of accounts. We suggest that the position be reviewed in consultation with the Comptroller and Auditor General and such changes introduced as are appropriate and practicable.

7.4. After a consideration of the various alternatives, it appears to us that the best way of bringing the accounting heads and development heads in line with each other would, under the existing structure of accounts heads, be to provide a link between the Plan schemes and the budget provision by way of a supplementary exercise through the publication of a separate Plan-Budget linking document by each State Government. This document would contain a statement of schemes included in the Annual Plan, arranged under heads of development indicating the provisions made for each of the schemes under the various budget heads of accounts. The link between the Plan schemes and the budget heads could be provided, for instance, by means of code numbers to be assigned to each scheme. Such a system could be put to use at the stage of the formulation of the budget documents; it would facilitate not only the correct booking of expenditure but also proper

accounting and reporting and would enable a regular track being kept of the expenditure under a particular head of development. In this connection, the system adopted in Uttar Pradesh is worth mentioning. The procedure followed by that Government is indicated in brief in the note at the Annexure to this Chapter.

7.5. The suggestion made by us in the preceding paragraphs is based on the assumption that the existing systems of accounting and budgeting will, in the main, be retained. We would, however, invite a reference to Chapter III of this Report, wherein we have recommended the introduction of Performance Budgeting. Certain recommendations in regard to the linking of the heads of development under the Plan with the budget and accounts heads have been made in the Report of the Working Group on Performance Budgeting.\* A definite view has been expressed therein that the problem can be successfully tackled only if changes both in the heads of accounts and in the heads of development and the groupings of schemes thereunder are brought about. In the opinion of the Working Group, the heads of development need to be recast so as to reflect the collection of homogeneous groups of schemes, and this should be done in such a manner that the new heads of development and the grouping thereunder correspond to the major and minor heads of accounts as proposed to be revised under the proposals of the Working Group. We consider that the acceptance of the changes proposed in the heads of account and development heads will help bring about a better correlation between the budget and plan documents.

#### B. BUDGET AND ECONOMIC ANALYSIS

7.6. An economic classification of Government transactions is largely useful at the stage of policy formulation as it enables the policy makers to review broadly the pattern of allocation of resources and its impact on the rest of the economy. An economic classification also provides a direct link with the national accounting data since it provides the necessary material for the construction of such an account with reference to the public sector. It is thus essentially an application of the national accounting techniques to the transactions of the Government sector. The object of such classification is to express the receipts and expenditures of Government in terms of categories meaningful for the purposes of economic analysis and to highlight the relationship

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\*Please see Volume II of this Report.

which they bear to similar categories in other sectors of the economy.

7.7. In the developing countries, the need for an economic classification of Government transactions has arisen primarily on account of the fact that the public sector has come to occupy a very prominent role in development plans, and the transactions of the Government sector constitute a significant proportion of those of the entire economy. As a result, the need of reclassifying Government transactions in order to make the budget a more effective instrument of economic policy has come to receive increased attention. Moreover, in a country like India where the national income data are not adequate, the economic classification of the Government transactions has also to be viewed as an essential step towards the construction of a comprehensive system of national accounts. This is needed not only for a better understanding of the functioning of the economic system but also for making necessary projections of savings, consumption and investment in the context of development plans.

7.8. The need for such classification arises because all Governmental transactions do not have the same economic significance in the sense of having the same impact on the economy. Different items of importance in the budget which have a different significance from the economic point of view have to be regrouped for this purpose. It is with this aim that the Ministry of Finance has been bringing out an economic classification of the Central Government budget since 1957-58. The main utility of this exercise is that it promotes a better understanding of the economic impact of the Government's operations. However, for a proper appreciation of the Government's role in the generation of incomes, savings and capital formation, it is essential that this technique is also extended to the budgets of the State Governments and the financial operations of the public sector undertakings run either as companies or as statutory corporations. A few of the State Governments, e.g., Punjab, Madhya Pradesh and Orissa, bring out an economic classification of their State budgets. To be really useful, this approach must not only be extended to budgetary transactions at all Governmental levels, but also to non-departmental enterprises of both the Central Government and all State Governments.

7.9. A serious lacuna in the 'economic classification' at present is that it is presented in a supplementary document and has no specific role in the formulation of the budget or budgetary policy as such. Since

the budget has an increasingly significant role to play in the regulation of the economy, it would be important that economic classification be integrated into the budgetary process itself. Such a process obtains in several advanced countries, e.g., in the U.K. and the U.S.A. It would be desirable that an economic analysis be carried out of the budget estimates of each department so that they could be analysed, at the time of aggregating the various demands, from the point of view of assessing the magnitude of expenditure in a particular year. We would therefore, suggest that to every Demand for Grant there should be attached an economic classification of that particular Demand.

7.10. The usefulness of the technique of economic classification has to be judged not only in terms of a better economic understanding of Government operations but also in terms of how far it facilitates policy formulation. The data in India in this regard are still deficient. For example, we have as yet no official series of savings and investment. We understand that on this and other important items the Central Statistical Organisation is making efforts to compile the data and construct the series. These efforts, which will be complementary to what we have recommended, should, in due course, help to fulfil much more adequately than at present the needs of economic analysis and policy formulation.

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## ANNEXURE

The Government of Uttar Pradesh publishes as a part of its budget literature every year a brochure entitled "Annual Plan Analysed in terms of Budget". The purpose of the document is to establish, by a system of cross references, the correspondence between individual plan schemes and the different items under budget heads of accounts. The system operates by means of code numbers, one of which is assigned to each scheme. This may be made clear by an illustration :

Code number 1.1.1.01 would stand for the "Expansion Scheme for the multiplication, storage and distribution of improved seeds, etc.". Similarly, 1.1.1.02 would be the code number of "Introduction of Hybrid Maize and Jowar seeds" under the group "Seed Farms" which in turn falls under the head of Development "Agricultural Production". The entire Plan Outlay is distributed over Sectors Nos. 1 to 7 as follows :

1. Agricultural Programmes
2. Cooperation and Community Development
3. Irrigation and Power
4. Industry and Mining
5. Transport and Communications
6. Social Services
7. Miscellaneous.

The number 1 in the fifth digit from the right hand side, in both the examples given above, would stand for the sector "Agricultural Programmes". Thereafter, the code number in the fourth digit would represent the head of development under the various sectors, the third digit would indicate the grouping of schemes under a particular head of development and the first two digits from the right hand side would denote one of the large number of individual schemes listed in the publication. Thus, in the first case, the two digits from the right, namely, 01, enable the name of the scheme to be traced, the third digit indicates the grouping of the schemes which in this case is "Seed Farm", and the fourth digit stands for "Agricultural Production" which is the head of Development under Sector 1 (fifth digit from the right) which is "Agricultural Programmes". In the second instance the sector, head

of development and group are the same as for the first; only the individual scheme is different and the relevant code number (.02) enables its being identified from the list. Lastly, we may consider the code number 1.4.1.14 which stands for "Intensive Cattle Development around the Milk Shed area of Etah". The first two digits on the right hand side represent the serial number of the scheme. The third digit 1. indicates the grouping which is "Cattle Breeding". The fourth digit (4.) indicates that the scheme falls under the head of development "Animal Husbandry". Finally, the fifth digit (1.) represents the sector entitled "Agricultural Programmes".

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## CHAPTER VIII

### LAPSE OF GRANTS

8.1. All funds voted by the Legislature—budget grants at the beginning of the year and supplementary grants during the course of it—lapse when the financial year ends. The Executive must seek the sanction of the Legislature afresh for funds needed during the ensuing year, including those which had been expected to be spent before the 31st of March, but were not and which, therefore, lapsed. This is the “rule of lapse”. More specifically it implies that no portion unexpended during the year may be reserved or appropriated by transfer to deposits or any other head, or drawn or kept in the cash chest, to obviate the lapsing of the grant and to be expended after the end of the year for which the grant was made.

8.2. The factors we have dealt with in Chapter V as underlying the over-estimation of expenditure are also relevant here as leading to the lapse of the unexpended part of provisions which *ab initio* were too high. But not all provisions are of this type. The estimates may have been quite sound, when made, but circumstances may have later intervened which interfered with the execution of the programme. Or the execution itself may be inadequate or put off till the last stages of the financial year. Further it must be remembered that provisions are, within limits, interchangeable through the process of reappropriation. This process is governed by a set of rules; and imperfect understanding or inefficient implementation of these rules may lead to funds lapsing in one sector of activity which might have been used effectively in another sector. In all such cases the remedy is not to seek abolition of the rule of lapse—that would be impracticable—but to plan better, execute quicker and implement rules more effectively.

8.3. We may add that what we have said about the “abolition” of the rule of lapse equally applies to two other alternatives sometimes suggested, *viz.*,

- (i) an 18-month or 24-month budget instead of a 12-month one, or
- (ii) a 15-month budget with the further refinement that the last three months of one budget overlap with the first three months of the next budget.

In the first case, the difficulties continue to exist; only they recur at longer intervals. The second course, if followed, would only result in present confusion being worse confounded; for obvious reasons, two sets of sanctions on the same set of funds—in other words two budgets in our sense of the word—cannot co-exist. In this as in many other matters, no budgetary formula or similar device can counteract the results of inadequate planning and inefficient execution.

8.4. The "rush of expenditure" towards the end of the year is an example in point. It is usually a symptom of bad execution and sometimes the result of deliberate evasion of rules. The desire in either case is to avoid the lapsing of grants. A contributory factor sometimes is the apprehension that the non-utilisation of the budgeted amount would invite unfavourable comments from the authorities above and ultimately perhaps from the Public Accounts Committee. The worst cases of rush of expenditure are those where moneys are withdrawn and, in contravention of rules, are deposited elsewhere or nominally "paid" to a contractor who is yet to complete the work. Such instances when detected should be severely dealt with; we believe that proper investigation will reveal that cases of this type are by no means few. Hardly less excusable are the instances in which provisions for developmental or other schemes are used up towards the end of the year on items such as furniture not originally contemplated, merely for the reason that there is an unexpended budget provision at the credit of the Department or Office concerned. The intensification of legitimate activity in these particular months—e.g., road-making for which February or March are among the most suitable months—stands in a different category. In other words many types of items are covered by the general phrase "rush of expenditure" and these must be properly sorted out for purposes of remedial action where necessary.

8.5. Another aspect which calls for attention is the one we have alluded to as connected with the rules of reappropriation. Even though it is enjoined on the Ministries and other spending authorities to surrender the savings within a grant or appropriation as soon as the possibility of such a saving is known, it often happens that savings are withheld till the close of the financial year. Funds that could have been effectively spent elsewhere are thus uselessly locked up and the programme of the Government as a whole suffers on account of inefficient financial management.

8.6. As mentioned above, in spite of the repeated instructions of the Finance Ministry, instances persist of the Departments and organisations not surrendering funds in time. This may happen partly because executive authorities are not actually aware of the state of expenditure and the progressive total of the expenditure against their allotments. The remedy in that case would be to improve and streamline the accounting and budgeting arrangements—a point which is discussed elsewhere in this Report.

8.7. We recognise, however, that there is also a psychological factor behind the reluctance to surrender funds in time; and if the Ministries or Project authorities could be given some assurance, albeit informal, that under-spending in one year would not unduly prejudice the budget estimates for the next year, the Department's reluctance to surrender funds in time would tend to diminish. We feel that it should be possible for the Finance Ministry to give the requisite assurance in this matter.

8.8. The lapse of funds for projects or capital programmes can also be reduced by improved managerial techniques and by a better phasing and programming of the expenditure on a project. The introduction of performance budgeting, which would relate the financial outlays to the physical accomplishments, should also help to reduce the incidence of the lapse of funds, since such lapses would be related to shortfalls in performance and would, therefore, be noticed without difficulty.

8.9. We have alluded elsewhere (in Chapter IV on the "Financial Year") to different categories of projects—new schemes, continuing schemes expected to be completed in a particular budget year but not so completed and so forth—each of which involves a somewhat different problem from the point of view of the lapse of the old provision and communication (or failure or delay in communication) of the new provision. A prompt system of communication of the new budget grants is obviously necessary in these as in all other cases. But, besides this, a part of the difficulty would be met by more liberal recourse to the system of Vote on Account. Funds by this means can be provided on a provisional basis. This is in fact done by the Central Government and no difficulties have been encountered.

## CHAPTER IX

### LUMP SUM AND TOKEN GRANTS

9.1. It is a well-accepted principle of budgeting that no provision should be made for a scheme unless adequate details, together with a break-down of cost, have been furnished to the Treasury and accepted by it. In other words, lump sum provisions, *i.e.*, provisions of which the details have not been worked out and, therefore, are not available, should not ordinarily be included in the budget. This salutary principle has been repeatedly emphasized by Parliamentary Committees and the Finance Ministry. Equally often it has been passed over in practice by the administrative Ministries, with the Finance Ministry seemingly helpless to enforce it.

9.2. Substantially similar considerations apply to token provisions. There is, however, some difference. A token grant, as distinguished from a lump sum provision, is one of which the details are, or can readily be made available; it is in fact a small or 'token' part of a larger demand which can be spelt in adequate detail. The actual demand is confined to a nominal amount because the expenditure itself can be met by reappropriation from savings in other units of appropriation within the same grant. If, despite the feasibility of reappropriation, a demand is nevertheless placed before the Legislature, it is because the item of expenditure is in the nature of a 'new service' and therefore requires the sanction of the Legislature irrespective of the source of finance. It follows that token demands can properly figure only in supplementary demands for grants. There can be no question of savings being available when the main budget is presented.

9.3. By a confusion of ideas, however, the term "token" demand is sometimes used as if it were interchangeable with certain types of demand for a "small" amount. To illustrate, we may take the instance of a big scheme for which the provision is expected to be spread over two or more years. If such a scheme is to start towards the end of a particular budget year, the provision necessary in that budget would be relatively small. This provision, of sometimes only a nominal amount, is included in the budget, is described (erroneously) as a 'token' provision and, on this basis, approval is sought for the scheme as a whole without disclosing adequate details of total expenditure. This

is clearly wrong. On the subject of 'token' grants all that need be said, therefore, is that the strict meaning of the term should be kept in mind and such grants asked for only in the one particular context—which we have defined above—in which they are permissible.

9.4. As for lump sum provisions, logically there should be a total ban on their inclusion in the budget. It is sometimes argued that since it may not always be feasible to defer individual projects over a whole year, the requisite funds would have to be found in the course of the year through supplementary demands. If these demands are many and large, they would between themselves constitute a "little budget" and may even involve mid-year taxation. As between mid-term budget and taxation on the one hand and lump sum provisions on the other it is argued that the latter are much the lesser evil. We consider this a counsel of despair. We agree that it would be both facile and undesirable to admit large items of expenditure and put them before the Legislature at any odd time of the year. That would make nonsense of the whole notion of budgeting. At the same time it is surely not correct to speak as if the only choice before administrative Departments is between sending half-backed schemes punctually and properly worked out schemes unpunctually; in other words, that it is not possible to adhere to a time schedule, whereby schemes are submitted both in adequate detail for financial scrutiny and in adequate time for inclusion in the budget. We are of the view that the administrative Ministries can and should take steps to obtain the clearance of their budget proposals from the Finance Ministry well before the final date stipulated in the budget calendar. This involves scrupulous observance of the existing instructions. It also points to the advisability of staggering such proposals over a period instead of waiting till the last moment and then rushing them together to the Finance Ministry.

9.5. Lump sum provisions should be regarded as permissible only in the most exceptional circumstances, e.g., where urgent measures have to be improvised for meeting an emergency. They would also, in a limited sense and in relatively moderate amounts, be justified when a detailed break-down is not possible, as when preliminary expenses on a projected scheme, e.g., for survey, etc., can only be roughly guessed rather than estimated item-wise. In all other instances the proper course would be to insist on consideration being

deferred until the next budget; in other words, to refuse to make provision in the proximate budget for schemes which have been inadequately or incompletely examined on account of not having been taken up for scrutiny early enough in the budget year. Where the scheme is so urgent that it cannot be deferred for a whole year, the proper alternative would be a shorter postponement together with full scrutiny meanwhile, and not that of waiving altogether the requirement that adequate details should be worked out. However, urgent a scheme, it obviously cannot be put into effect without the details having been properly set out. A postponement can, therefore, ordinarily do no harm; and, while the less urgent scheme gets deferred to another budget altogether, the more urgent one has a chance of being considered at the time supplementary demands are asked for in the forthcoming year, involving only a few months' postponement. If this selective approach is followed, there need be no apprehension that the supplementary budget would be so large as to be another budget by itself. It might, however, be advisable in this context to enlarge to some extent the contingency funds of both the Central Government and the State Governments.

9.6. In conclusion, we would state our conviction that the frequency and magnitude of lump sum provisions—notwithstanding all exhortations aimed at their elimination—is one of the symptoms of a malaise which is deeper than mere budgetary inertia. It is evident, in our view, that at all levels of the machinery of Government—project offices, departments and Ministries—provisions are still in most cases not thought of in terms of programmes, or expenditure in terms of activities. The “performance” aspect of budgeting which we have elsewhere recommended as an important technical feature to be introduced in the budgetary processes of both Centre and States is in essence a habit of mind which, we hope, will in course of time permeate the whole administration. Meanwhile, we trust that in pursuance of some of our recommendations the more important organisations and departments will soon have adequately equipped budget cells where the emphasis throughout is both on a schedule of activities and—its counterpart—a budget of cash provisions. No department which thinks in terms of performance budgeting is likely to leave it till the last moment to work out the “action content” of a scheme and meanwhile ask for a large overall provision to meet expenditure on it. This change of

attitude, however, need not await any massive reorganisation of governmental machinery or even budgetary procedure. When it comes, as we believe it already has in some individual instances, it will help to eliminate several features of lax budgeting such as those described in this chapter.

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## *CHAPTER X*

### REVIEW OF EXPENDITURE

10.1. Detailed instructions exist for the control of expenditure and the reporting of its progress. The rules contain general instructions relating to the responsibility of spending authorities at various levels. In addition, there are the departmental manuals containing specific and particular instructions to suit the nature of operations in each department.

10.2. It is necessary to take notice of the various inadequacies revealed in the actual operation of the present procedure and rules. The reporting is done in terms of expenditure and not also of physical performance. Even so, as a rule, at no given time up to a late stage in the financial year do the administrative Ministries or the spending authorities have up-to-date figures of the progress of expenditure; they have almost invariably to get the information from the accounting authorities who are officers of the Audit and Accounts Department. The Ministries and Departments enter sometimes into commitments in comparative ignorance of the progressive figures of expenditure or the availability of funds against the appropriations or allotments made. Moreover, not much use is made of the expenditure data in decision-making, including budgeting decisions, largely because the system does not provide for adequate and up-to-date data being made available at any particular point of time as to what has been spent and what is available. When the figures of expenditure do become available it is usually too late for ensuring at the level of Department or Ministry either that the current appropriations are not exceeded or that the requisite amounts are provided in the next budget.

10.3. The primary purpose of progress reporting is to furnish data to the management periodically regarding the progress in the execution of programmes, physical accomplishments, manpower utilization and financial results. The object of such reporting is to enable the various management levels to monitor the operations that are included in their respective jurisdictions and to enable a systematic appraisal and evaluation of the work done. A good system of pro-

gress reporting should provide a basis for a comparison of the current progress against the past and the projected schedule of work. Specifically, in so far as the system of reporting the progress in expenditure is concerned, the object may be stated as under :

- (i) accounting data should facilitate the formulation of a policy and also throw up material that will make possible the assessment of the working of the policy, and
- (ii) it should also render the action of each agency accountable to the higher agency or to the Legislature and through it to the public in the ultimate analysis.

10.4. At present, expenditure reporting is done with reference to the major and minor heads of accounts. Such an emphasis limits its capacity to facilitate a comparison of the progress in expenditure with the progress in physical terms. This is particularly so in view of the fact that physical progress has to be in relation to activities programmes and schemes, while the progress of expenditure has hitherto been reported or exhibited in terms of objects such as pay of officers, pay of establishment, contingencies, etc. An important requirement of planned economic development is a system of data reporting that would establish a rapport between the financial and physical aspects. In our view, the reporting system should be increasingly oriented to meeting the needs and requirements of performance budgeting. Even though performance budgeting will, under our recommendations, cover a limited area of the entire Governmental activities in the initial stages, it will, we envisage, be extended over a wider area in due course. In a matter like financial reporting, it is desirable that modern techniques should be adopted over as wide an area as possible. We are recommending elsewhere increased financial responsibility and authority to administrative Ministries and Departments subject to the pre-budget scrutiny of the Finance Ministry. Under the new set-up in which Departments would be responsible for their own financial management, there would be greater need of adequate internal reports for the use of both the Department and the Finance Ministry.

10.5. As regards the watching of the progress of expenditure, the Accountants General are required to intimate to the Ministries concerned the approximate figures of expenditure by major heads by the 10th of the succeeding month and of figures of expenditure under minor heads and primary units by the end of the succeeding month

after the monthly accounts are closed. There are complaints, however, that the expenditure statements are not always received regularly. We express the hope that the Comptroller and Auditor General and the administrative Ministries will in consultation with each other take steps to ensure that the figures are submitted punctually at all levels of the organisations.

10.6. As regards the post-budget control to be exercised by the Finance Ministry, it is essential for the proper discharge of their functions that they receive the prescribed reports in time and regularly. In actual practice, however, certain Ministries have, we understand, been rather remiss in sending the half-yearly statements of the staff strength. The copies of the sanction orders issued under the delegated powers are not, for instance, received regularly in the Finance Ministry. The form prescribed for sending half-yearly reports has been recently amplified in certain aspects. It should, in our view, be further amplified to incorporate information on some important points, for example, (i) the existing budget provision, (ii) the savings which have been located for covering the expenditure involved, and (iii) the issue numbers of the sanction orders.

10.7. As mentioned in more detail in Chapter XI of this Report, our proposals envisage certain limitations being placed on the powers of administrative Ministries to create posts and they assign a more positive role to the Finance Ministry in the matter of ensuring that the expenditure on staff and establishment is more strictly scrutinised and kept under control. In view of this, it is all the more important to ensure that the half-yearly statements of the administrative Ministries are more informative and are submitted punctually.

10.8. We have referred to the difficulties experienced by the administrative Ministries in watching the progress of expenditure and have also suggested what steps should in our opinion, be taken to remove the difficulties. The real solution, in our view, would lie in transferring the responsibility for the maintenance of accounts to the administrative Ministries or Departments concerned. The departmentalisation of accounts and the delegation of financial powers to the administrative Ministries are two facets of the same process of transferring the entire responsibility of financial management and administration to the administrative Ministries. The question of

accounting reforms is being examined by another Study Team. What we wish to do here is to emphasise the need for strengthening the accounting arrangements in such a way that the Ministries, and the other administrative authorities below them, can discharge their respective responsibilities in as full, unhampered and effective a manner as possible.



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**P A R T—T W O**  
**E X P E N D I T U R E   C O N T R O L**

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## CHAPTER XI

### DELEGATION OF FINANCIAL POWERS

11.1. The existing rules provide that, subject to general or special orders made by the Ministry of Finance, no Department shall without the previous concurrence of the Ministry of Finance, issue any orders which may :—

- (a) involve any abandonment of revenue or involve any expenditure for which no provision has been made in Appropriation Act;
- (b) involve any grant of land or assignment of revenue or concession, grant lease or license of mineral or forests right or a right to water, power, or any easement or privilege in respect of such concession;
- (c) relate to the number of grades of posts or to the strength of a Service or to the pay or allowances of Government servants or to any other conditions of their service having financial implications, or
- (d) otherwise have a financial bearing whether involving expenditure or not.

There are identical provisions in the Rules of Business of State Governments. It may be added that the inclusion of a particular provision in the budget does not by itself confer authority to spend it. All this can be, and in practice often is, unduly restrictive. That financial control is needed goes without saying; that this control *vis-a-vis* the administrative structure, should ultimately vest in the Finance Ministry, may also be accepted. But it will be noticed that while the rule lays down a general restriction, it also incorporates an important proviso. Far from being absolute, the restriction is subject to such general or special orders as may be made by the Finance Ministry. Control a delegation go together and what the rule envisages is not only financial control but also, and more importantly, financial delegation. The content of this delegation has been increasing from year to year. Various committees and authorities have, over the past twenty years, expressed views on the adequacy or otherwise of the delegations and recommended various measures.

The views expressed and the action taken are summarised in Annexure 'A' at the end of this chapter.

11.2. It was for the first time under a scheme introduced in 1958 that a substantial delegation of financial powers was made to the administrative Ministries. The main features of this scheme were as follows :—

- (i) The power of the administrative Ministries to create temporary posts up to a period of two years was enhanced to include posts up to a pay scale going up to Rs. 2250/- p.m. Permanent posts could be created in Classes II, III and IV.
- (ii) Subject to the existence of budget provision, administrative Ministries were authorised to issue expenditure sanctions on any scheme the total expenditure of which did not exceed Rs. 50 lakhs.
- (iii) The administrative Ministries were delegated full powers without any monetary ceilings, in respect of grants-in-aid and loans where schemes and pattern of grants and loans had already been approved by the Ministry of Finance.
- (iv) Full power to place contracts and to make purchases was delegated with a ceiling of Rs. 25 lakhs. In the case of single tender contracts the value was Rs. 10 lakhs and in the case of proprietary stores the ceiling was Rs. 5 lakhs. In the case of the Ministry of Works & Housing, the monetary limit was Rs. 50 lakhs in the case of single tender contracts and Rs. 1 crore in other contracts.

11.3. The twin aspects of control and delegation continued to engage the attention of Government. In 1961, for example, a further scheme of delegation was worked out and included in a paper on 'Measures for Strengthening of Administration' laid by the Prime Minister on the Table of the Lok Sabha. The paper said :

"Responsibility for financial management should be devolved in greater measure than before both on the Ministries and executive agencies. The scheme now approved includes (a) formulation of programmes for intensive pre-budget scrutiny between the Ministry of Finance and administrative Ministry necessitating the preparation of budget estimates earlier than

usual and (b) further liberalisation of financial powers to the Ministries in order to avoid references to Finance Ministry in the post-budget period except in vital matters and (c) the exercise of control of important financial aspects by the Finance Ministry through adequate reporting system and test checks."

11.4. As a result of the review of the earlier reforms and a better realisation of the problems that confronted the execution of the Five-Year Plans, a scheme based on devolution of a greater measure of financial responsibilities to administrative Ministries was introduced in September, 1961, on an experimental basis, in the four Ministries of Commerce and Industry, Community Development, Panchayati Raj and Co-operation, Information and Broadcasting and the Department of Food. This scheme envisaged the exercise of control by the Finance Ministry mainly through pre-budget scrutiny and through random checks and work studies. The scheme was extended to other Ministries and departments of the Government of India with effect from 1st June, 1962. The main features of the scheme are given in Annexure 'B' at the end of this chapter.

11.5. On account of the emergency arising in the wake of the Chinese aggression towards the end of 1962, the scope of the delegation made in the circular of June 1, 1962, had to be modified in certain respects, the most important of which were (a) posts (other than those required for security and Plan purposes) could be created only with the concurrence of the Ministry of Home Affairs and the Ministry of Finance, and (b) proposals for new constructions could be sanctioned only with the concurrence of the Ministry of Finance, even though covered by the existing budget allotments.

11.6. The position was reviewed towards the end of 1965 and orders issued in March, 1966, reintroducing the scheme of delegation as it had obtained in June, 1962. The effect of the orders is that the Ministries have full authority to spend within their budget provision; they exercise this authority in consultation with the internal Financial Advisers, but have no need to seek the sanction of the Finance Ministry. Moreover, the Ministries have been given full powers to sanction expenditure on the various constituent schemes included in a project irrespective of the magnitude of the expenditure involved, provided that the project as a whole has been scrutinised

and accepted by the Ministry of Finance. They have also been given powers to sanction, in their discretion, excess expenditure over the original estimates of the sanctioned schemes up to 10% or Rs. 1 crore, whichever is less, in cases where the administrative Ministry is satisfied about the special circumstances justifying the excess. As a result of this review, fresh instructions on the subject were issued in the Ministry of Finance O.M. No. F. 10(50)-E(Coord)/65 dated the 15th March 1966.

11.7. An important feature of the present system of delegation is that, theoretically, the scrutiny by the Finance Ministry is mainly pre-budget. Once that stage is passed the Ministries have large powers to incur expenditure, enter into contracts, and generally proceed with execution. This should work extremely well if one important condition was satisfied, namely, that the Finance Ministry did in fact scrutinise most schemes at the pre-budget stage. Unfortunately, there remains a large proportion of cases in which the condition is not fulfilled.

11.8. It is clear that many steps have to be taken by the authority in charge of the execution of a major project before the project itself is worked out to the last detail. A scheme of delegation which does not become operative until the last detail is approved by the Finance Ministry is, therefore, not very satisfactory. More than one instance has been brought to our notice of such postponement of delegation in respect of major projects. We are of the view that, once the preliminary feasibility report has been prepared and is accepted by Government, the administrative Ministries should be permitted to sanction expenditure on essential preliminary items up to a certain limit of their estimated cost.

11.9. Even where no detailed project report is involved, delay sometimes occurs in the process of scrutiny and examination by Finance. We suggest the setting of a time limit, say, four to five months, within which the approval of the Finance Ministry to the project or schemes should be accorded, failing which there should be a provision for the matter being automatically brought for decision before a Committee presided over by Cabinet Secretary.

11.10. One of the powers delegated to Ministries is that of re-appropriation within each of certain specified groups of schemes, the grouping itself in each case being approved by the Finance Ministry.

This approval is lacking in many cases and the power therefore is largely unexercised. It may be that the administrative Ministries themselves have not in many instances approached the Finance Ministry with specific proposals for the grouping together of allied schemes. The matter, however, should not be allowed to rest there. Delegation is not the perquisite of a Department but, a requisite of the system. It would be only appropriate, therefore, for the Finance Ministry to play a more positive role in this context and obtain from the Ministries, for purposes of approval, lists of related schemes at the time of formulation of budget.

11.11. The existing powers of reappropriation of the Ministries are specified in certain rules made in 1958. These have been modified from time to time. Even so, there are lacunae which need to be filled and we suggest a review of these rules for the purpose of vesting more such powers in the administrative Ministries. Further we are of the view that the delegation of other powers to Ministries—*e.g.*, in the matter of negotiating contracts and placing orders for materials and supplies—are unduly restrictive in various respects. We suggest that in this instance as well the existing provisions should be reviewed and revised with the object of enhancing the powers of the administrative Ministries concerned.

11.12. While generally we have suggested greater financial delegation, there is one matter in which we recognize the need for greater overall control: the creation of posts and the resultant increase in establishment costs. Subject to the availability of funds and the location of savings, the Ministries are now competent to create temporary and permanent posts on any approved scale of pay, etc. The opinion has been expressed both in Parliament and elsewhere that there is considerable overstaffing in Government departments and demands have been made from time to time for reduction in the expenditure on staff and establishment. It has also been felt that, under the delegated powers, the Ministries have been prone to create posts more liberally and with less rigid application of the standards or norms for the creation of such posts with the result that there has been avoidable expansion of staff. It is true that under the existing arrangements, the Ministries are required to consult the Work Study Units before creating new posts. Where separate work study units do not exist, this function is entrusted to the O. & M. Units. Many of the Work Study Units have not built up the expertise required for their

being effective advisers in this respect of the Ministries of which they are a part. We are of the view that this function should be entrusted to a more specialised agency, detached from the day-to-day work of the particular Ministries which are advised.

11.13. We are further of the view that proposals for additional staff or creation of posts should be considered by a well-trained staff inspection unit composed of officers with adequate training in methods of work study, work measurement, etc. While the present Staff Inspection Unit, in the Ministry of Finance may serve as a nucleus, with certain adjustments in composition, we consider that the new unit proposed should be located, not in the Finance Ministry, but in the Ministry of Home Affairs or in the Cabinet Secretariat.

11.14. The limitations on the powers of administrative Ministries to create posts which we have suggested above may, however, create difficulties, for example, in the case of a sudden increase in work or on account of certain work of an emergent nature devolving on a Ministry and in such circumstances it would obviously be necessary that they should continue to have powers to create posts of a purely temporary nature to cope with such a rush of work. We would, therefore suggest that in such cases of urgency the Ministries should have powers to create, during the course of a financial year for every short periods not exceeding three months in all, temporary posts in Class II, III and IV if funds to meet the cost of these posts can be found by valid reappropriation within their budget provision. This will also apply *mutatis mutandis* to the relevant departments and heads of departments.

11.15. In the light of the limitations which we have suggested on the powers of the administrative Ministries to create posts, it will be necessary also to restrict powers of reappropriation in one respect. In this case what we would recommend amounts to the revival of an older restriction. This precluded Ministries from augmenting the provisions under the "Pay of Officers" and "Pay of Establishment" by recourse to reappropriation. This rule might be revived with the slight modification that when purely temporary posts are created in exercise of the Ministries' own delegated powers in the manner indicated above, the additional funds for such posts could be found by reappropriation. In all other cases of creation of staff the Ministries will have to go through the normal channels for obtaining funds. This

will enable more effective scrutiny of proposals for augmentation of staff.

11.16. We have one other suggestion to make regarding powers of reappropriation. The present position is that a sum provided under the head 'Plan' in a Demand for Grants is available for plan schemes only; in other words savings in plan expenditure cannot be diverted for non-plan purposes by the Ministries without the specific prior concurrence of the Finance Ministry. This restriction serves a purpose, but the converse should certainly be permitted. A provision made under the head 'Non-Plan' for a scheme and not utilised should be allowed to be reappropriated for a plan scheme under the delegated powers of the Ministries without their having to come to the Finance Ministry.

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## ANNEXURE 'A'

*Summary of the views on delegation of financial powers given by various authorities and action taken prior to 1958*

### A. SUMMARY OF VIEWS

Name of the person/committee	Year ,	Summary of comments
1. Sir James Grigg . . . .	1934-39	The system of detailed sanction involved a good deal of wastage of time and efforts at both ends; it also made for a timid attitude on the part of administrative departments.
2. Sir Richard Tottenham . . . .	Nov. 1945	The existing system of day to day control by the Finance Department tended to blunt the financial conscience of the spending Departments, and that better results, combined with a great decrease of work could be obtained by putting financial responsibility more squarely on the latter. He also wanted "Contract Budget" or Commitments budget to be introduced.
3. Shri Gopalaswamy Ayyangar	1949	The Ministry of Finance is unwieldy; there is far too much centralisation; it concerns itself not merely with the general financial policy of the government or the main heads of public expenditure but also with every detail in the administrative execution of proposal for which the need has been accepted by Government as well as the legislature.

ANNEXURE 'A'—*contd.*

Name of the person/committee	Year	Summary of comments
		The problem is to bring about such changes in machinery and procedure as would render the process of expenditure sanction more intelligent, well-informed and speedy and thereby remove the sense of frustration which afflicts several Ministries and Departments.
		A compendium/guide of financial rules should be issued.
4. Estimates Committee First Lok Sabha Second Report.	1950-51	"In order to avoid unnecessary delay in the day to day performance of the normal functions of a Ministry, greater financial powers in the field of minor items of expenditure should be developed on the heads of Ministries and Departments."
5. Shri A. D. Gorwala . . .	1951	There are many bitter complaints relating to woodenness and lack of discrimination of the Finance Ministry at the Centre. It centralises in itself the power of sanction, and even for small amounts of expenditure the Administrative Departments have to go to the Finance Ministry.  In the States the relations between the Finance Department and other Departments are much more cordial.
6. Dr. Paul H. Appleby . . .	1953	There is an astonishing lack of capacity and/or facilities for administrative delegation. The financial control was

ANNEXURE 'A'—*contd.*

Name of the person/committee	Year	Summary of comments.
		too much in the hands of persons remote from action and programme realities.
7. Shri C. D. Deshmukh . . .	1953-54	The general procedure followed was sound but there was a need to avoid reference of trivial matters to the Ministry of Finance.
8 Estimates Committee Report (9th Report).	1953-54	The delegation of financial powers had become a necessity in view of the changed circumstances. After the scheme has obtained financial concurrence from the Ministry of Finance, the detailed execution of the scheme and spending of money thereon should be the responsibility of the Administrative Ministry concerned.
9. Shri A. K. Chanda . . . .	1957	The existing system of financial control is wasteful because schemes are, at present, drawn without sufficient technical/financial advice. The present external financial advisers are not familiar with difficulties.

#### B. ACTION TAKEN PRIOR TO 1958.

In May 1955 orders were issued enhancing the existing financial and cognate powers to the administrative Ministries and Heads of Departments, as the powers enjoyed by them prior to this were extremely limited, for example, the Ministries had hitherto powers to create posts only in Class III and IV for their own offices. As a result of the delegations made in May 1955, the Ministries were given powers to create Class I and Class II posts not above the rank of Under Secretary up to two years in their own establishment as well as under other establishments under their control. Similarly the powers of incurring contingent expenditure of both recurring and non-recurring nature were enhanced.

## ANNEXURE 'B'

*Main features of the Schemes of delegations in 1962.*

1. A proper scrutiny of the schemes, etc., submitted by the administrative Ministries for incorporation in the Budget should be carried out by the Ministry of Finance before including such proposals in the Budget. It has, therefore, been decided that budget proposals should be prepared by Ministries in greater detail and with as much precision as possible and referred to Finance Ministry a few months earlier than usual, say from the beginning of July each year.
2. Arrangements have been made with the Accountants General for the regular and timely supply of accounting data to the administrative Ministries to enable them to steady expenditure against the appropriations.
3. Lump provision can be made for urgent schemes not yet ready in detail. But sanction against such provision can be issued only after the scheme had been accepted by the Ministry of Finance.
4. This scheme of delegation of powers also provides that any amounts, without specified limits, may be sanctioned by the administrative ministries if the projects for which such amounts are sanctioned, have been earlier scrutinised and accepted by the Ministry of Finance. It may be noted that under the powers delegated in 1958, the administrative Ministries were authorised to sanction expenditure up to Rs. 50 lakhs only.
5. The Administrative Ministries have been delegated powers to incur expenditure on all items irrespective of the fact whether these are new items or otherwise, so long as such new items form part of an approved project.
6. The Administrative Ministries have also been delegated full powers for reappropriation between the primary units. To facilitate the exercise of these powers, it has been provided that the primary units consisting of allied schemes be

formed into groups and such groupings be got approved by the Ministry of Finance.

7. The Administrative Ministries have been authorised to create posts up to a pay scale of Rs. 3000 p.m.
8. Powers have also been delegated to the administrative Ministries to sanction excess expenditure over the original estimates up to a limit of 10% or Rs. 1 crore, whichever is less, in cases where the administrative Ministry is satisfied about the special circumstances justifying the excess.
9. It has been made an integral part of the scheme of 1962 that each Ministry should set up, internally, a competent work study unit which would assist the Ministry in laying down norms for particular types of work and would also examine such proposals for staff reorganisation/or creation of posts (both in the Department and in offices under it) as are referred to it.

## **CHAPTER XII**

### **ROLE OF FINANCIAL ADVISER**

12.1. It is unnecessary for our purposes to trace the successive changes which have taken place in the role and functions of the Financial Adviser. A distinction has to be drawn between :—

- (a) the External Financial Adviser whose main function is to exercise some of the powers of the Finance Ministry and advise on its behalf; and
- (b) the Internal Financial Adviser whose main function is to assist in the exercise of powers delegated to the Administrative Ministry.

description may be amplified in order that the issues may be clear :

- (i) The External Financial Adviser has obviously, in that capacity, to be responsible to the Finance Ministry. But while discharging various functions on behalf of that Ministry there is nothing to prevent his being asked to advise in the delegated sphere as well. In one sense, this would be a combination of the roles of External and Internal Financial Adviser.
- (ii) An Internal Financial Adviser strictly so called—i.e. one who does not exercise any powers whatever on behalf of the Finance Ministry—will nevertheless obviously concern himself not only with financial matters finally disposed of by his own Ministry, but also with those which being outside the delegated sphere—necessitate a reference to the Finance Ministry. This, however, is not a “combination” of roles as in (i) above.
- (iii) One distinguishing feature of internal financial advice is that it must be susceptible of being overruled within the Ministry itself. The level at which it may be overruled, and the conditions (if any) subject to which it may be overruled are points of relative detail, though important in themselves. (If, for example, it is laid down that, every time such advice is overruled, one or more of

various authorities—e.g. Finance Ministry and Auditor General—should be notified, this would be a significant restriction on the exercise of the relevant powers of the Administrative Ministry.)

12.2. The latest position may be summarised as follows : Certain financial powers are delegated to the Administrative Ministries. In the exercise of such powers it is open to the Ministry—(a) whether or not to make purely internal arrangements for financial advice; (b) in the event of making such arrangements, whether or not they should take the form of appointing an Internal Financial Adviser, strictly so called and (c) in the event of not appointing an Internal Financial Adviser, whether or not to refer one or more categories of cases (within the delegated sphere), for advice, to the Finance Ministry, it being understood that such advice is not binding on the Administrative Ministry.

12.3. We may now consider certain views relevant to the role and functions of the Financial Adviser. The proposition is advanced, on the one hand, that the advice from a person subordinate to the Secretary of a Ministry is not likely to be independent and objective and is bound to reflect the situation under which the Financial Adviser is directly subordinate to the Secretary of the Ministry on whose confidential report his preferment and future prospects would greatly depend. There is, on the other hand, the point of view that advice proceeding from a person within the Ministry will be more uninhibited and informed since he will be intimately associated with, and will have intimate knowledge of, the working of the Ministry and its organisations and projects. Here as elsewhere we consider the over-riding need to be that of prompt decision and speedy implementation. It is of vital importance, from this point of view, that the responsibility for execution should rest squarely on the Ministries and departments concerned. It is in the discharge of the responsibilities and as an integral part thereof that the need arises for internal financial advice.

12.4. We are, therefore, of the view that the Secretary of a Ministry should not only be delegated all the necessary powers, but, in their exercise, be assisted by a competent Finance Branch or Section under him. His own responsibility should remain unimpaired, and he should therefore have the power to overrule the Financial Adviser, where necessary. Since the delegated powers that we envisage will be quite

large, references outside the delegated sphere will be much fewer than at present and can be conveniently addressed direct to the Finance Ministry. We, therefore, see no place for an External Financial Adviser in the arrangements we contemplate. The Financial Adviser of our recommendations will be a purely Internal Financial Adviser with no functions to discharge or responsibilities to exercise on behalf of the Finance Ministry. He will be responsible to, and under the administrative control of, the Secretary of the Administrative Ministry. So long as this is clearly understood, however, we see definite advantages in the Financial Adviser being appointed with the concurrence of the Finance Ministry. The annual assessment of his work, like that of other officers of the Ministry, should be recorded by the Secretary of the Administrative Ministry. We would suggest, however, that in order to ensure greater objectivity and better assessment of the professional and technical aspects of his work, the report of the Secretary, Expenditure Department should also be obtained and incorporated in the annual confidential report. We envisage, on the part of the Finance Ministry, an overall and co-ordinating interest in the careers of Financial Advisers.

12.5. The Financial Adviser that we contemplate will be a senior officer with adequate background and training. Like his counterpart in the United Kingdom, he will be among the most important officers of the Ministry. He will assist and advise the Secretary in the exercise of the financial powers of the Ministry and will be entitled and expected to put forward his views on all financial matters before decisions are reached. He will organise financial management and control in all matters within the Ministry's field of responsibility and maintain the requisite liaison with the Ministry of Finance. He will be placed in charge of the Finance and Budget Cells of the Ministry. It will be open to the Secretary of the Ministry to overrule him without having to report the fact to any one, but there is another and more positive side to the relationship between the Secretary and the Financial Adviser, namely that the former will attach the highest importance and give the most careful consideration to the views expressed by the Financial Adviser. The relationship between them should be that of senior partners in a common enterprise.

12.6. We would make certain detailed observations regarding the scheme of financial advice as it now obtains *i.e.* as in Memorandum of March 15, 1966 :—

- (i) The first point is with regard to the procedure of consultation with the Financial Adviser. It is provided that a Ministry would lay down in its discretion the procedure for consultation with the Financial Adviser. It would be of advantage, in our view, to provide for the formulation of a uniform set of rules, for the guidance of Administrative Ministries.
- (ii) Secondly, at present it is within the discretion of the administrative Ministries to decide whether or not a whole-time Financial Adviser is needed. It is imperative as mentioned earlier that the Administrative Ministries should, in the exercise of their powers over a vast delegated field, have the benefit of proper financial advice. This should, in our view, be provided by a well-organised system and through a mechanism by which the financial aspects of a proposal or the financial considerations that should weigh in decision-making should regularly and systematically be presented to them. It should, therefore, be obligatory on each Administrative Ministry to have an Internal Financial Adviser though on considerations of work load etc., it should be open to Government to entrust to one official the work relating to more than one Ministry.
- (iii) The third point requiring attention is the financial organisation within the Administrative Ministries. The orders of 1962 [No. F.10(4)-E/(Coord)/62 dated 1st June 1962] clearly envisaged the Ministries organising their Finance, Budget, and Accounts cells suitably to implement the new scheme of delegation of powers. It is necessary that the Finance Branches of the Administrative Ministries should be strengthened where necessary, and staffed with trained and qualified personnel. The Ministry of Finance have also a responsibility in the matter. They should, we would suggest, help the Administrative Ministries to organise well-equipped internal finance branches manned with qualified and well-trained personnel. It will be necessary (a) to ensure proper training of the junior ranks, (b) to provide, for the middle ranks, varied experiences and knowledge of the different fields

of public administration and (c) to devise a careful system of selection and inter-change between departments in respect of the higher echelons. A fresh assessment of the requirements of the Finance Branches may also have to be made in the light of the requirements of performance budgeting, about which we have made our recommendations earlier in this Report.

- (iv) Lastly, it should be made perfectly clear by Government that it is no longer necessary for an administrative Ministry to refer for decision to the Finance Ministry (other than a point of interpretation or clarification) any matter which is within the delegated field. In all such cases, the Administrative Ministry should exercise responsibility on its own. Conversely, the Finance Ministry should refuse to entertain references falling within the delegated sphere of an Administrative Ministry.

12.7. It will be necessary to mention, however, that under this scheme of Internal Financial Advisers some increase in staff would be involved, at any rate in the initial stages. The number of Financial Advisers would have to be increased since an Internal Financial Adviser, by the very nature of his duties, has to be an integral part of the Ministry and cannot adequately and effectively discharge his duties if (except when the Ministries or Departments are relatively small) he is called upon simultaneously to act in that capacity to a large number of them. The process of strengthening the Finance and Accounts branches of the departments may also involve some expenditure. But having given weight to the consideration of speed in decision-making and execution and to the need of improved financial management systems and practices, we cannot help feeling that this additional expenditure would be well worth incurring, since it would be repaid by a better and more efficient financial management.

12.8. Apart from the personal qualities so very requisite for these posts, it is necessary that Financial Advisers should have a background of administrative experience. It is also necessary that they should at an appropriate stage be given adequate orientation in relation to the duties of Financial Adviser.

12.9. Finally, we support the principle of periodical interchange between the Financial Wing and other branches of administration. This will not only enrich the experience of those who are thus interchanged but also, in the long run, make for sounder finance as well as sounder administration.

## CHAPTER XIII

### CONTROL BY PARLIAMENT

13.1. In discussing the budget—which is the authority for all Government spending—and in voting the budget grants, the Legislature is in fact exercising a basic form of expenditure control. The control continues in another form after the budget is passed. The object is to ensure that the funds appropriated by the Parliament have been utilised for the purposes specified and in the manner intended. In this phase of parliamentary control, the instruments are the Financial Committees of Parliament, namely, the Public Accounts Committee, the Estimates Committee and the Committee on Public Undertakings. In this Chapter we discuss the role of these Committees and their possible re-orientation in the light of new requirements.

13.2. The Public Accounts Committee is the most important of the Parliamentary Committees on public expenditure. This Committee was constituted at the Centre and in the States on the inauguration in 1921 of the Montague-Chelmsford Reforms and has been continuously in existence since then. As now constituted, the Committee consists of 15 members elected from the Lok Sabha and seven members from the Rajya Sabha.

13.3. The main functions of the Committee are to ensure (a) that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged; (b) that the expenditure conforms to the authority which governs it; and (c) that every reappropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

13.4. Though essentially concerned with the aspects of appropriation, the scope of the Committee's actual work extends to aspects such as prudence, economy and financial propriety. The Committee's reports have been instrumental in giving considerable publicity to individual instance of departure from sound standards of public expenditure.

13.5. The functions of the Estimates Committee are different from those of the Public Accounts Committee. The Estimates Com-

mittee was constituted in 1950 and consisted originally of 25 members, but the strength was raised to 30 in 1955. The members are drawn exclusively from the Lok Sabha and their term of office is one year.

13.6. The functions of the Estimates Committee are as follows :—

- (a) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be effected;
- (b) to suggest alternative policies in order to bring about efficiency and economy in administration;
- (c) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and
- (d) to suggest the form in which the estimates shall be presented to Parliament.

Though the Committee is known as an Estimates Committee, it does not examine the Budget Estimates presented to Parliament. It is concerned with 'estimates' only after they have been presented to the House, and it takes up for examination the various current activities reflected in these estimates. The main objectives of the Committee are to secure economy and efficiency in administration, and to ensure that money is well laid out, but if a closer examination reveals that a certain policy is defective or that its implementation involves wastage of funds, the Committee may with supporting reasons, suggest an alternative policy for the consideration of Parliament.

13.7. The control exercised by the Estimates Committee is not direct but is felt mainly by virtue of its influence on the decisions of the Government. One of the limitations of the working of the Committee is, however, the time lag between one review and another of the same department. This is because the Committee can concentrate at any one time on only one or two Departments and it naturally takes a long time before it can come back to the same Department. Moreover, the Committee does not have the benefit of such competent technical advice as the Public Accounts Committee has from the Comptroller and Auditor General.

13.8. The third Committee of the House is the Committee on Public Undertakings consisting of 15 members : 10 elected by the

Lok Sabha and 5 elected by the Rajya Sabha from among their Members. This Committee is a relatively recent creation; it started functioning in 1964. The scope of the Committee's work is (i) to examine the reports and accounts of public undertakings; (ii) to examine the report, if any, of the Comptroller and Auditor General on the public undertakings; (iii) to examine, in the context of autonomy and efficiency if the public undertakings are being managed in accordance with sound business principles and prudent commercial practices and (iv) to discharge such other functions vested in the Public Accounts Committee and the Estimates Committee in relation to the public undertakings, as are not covered under items (i), (ii) and (iii) above and as may be assigned to the Committee by the Speaker from time to time. The Committee undertakes its studies of individual public undertakings, by rotation.

13.9. The question is sometimes raised whether there is not a certain amount of duplication in the functions and responsibilities of these Parliamentary Committees and whether it is really necessary to have three Committees doing work of almost similar nature. In particular, there is considerable overlapping between the spheres of activities of the Public Accounts Committee and the Estimates Committee and then again between those of the Estimates Committee and the Committee on Public Undertakings. It has already been noticed that the task of the Estimates Committee is not, as in the case of the Standing Finance Committee, to exercise a pre-budget scrutiny of the items of expenditure but only to examine the estimates after they have been presented and approved by the Parliament. The need of having a Parliamentary Committee for this limited purpose is questioned by many.

13.10. In considering the re-orientation and in some aspects the reorganisation and rationalisation of these Committees, we believe that certain points should be borne in mind. We formulate them below partly in the shape of observations and partly as recommendations :—

- (i) Parliament's time is valuable. In so far as the Committees draw Parliament's attention to specific matters, these matters must be so important as to justify Parliament devoting time and attention to them.
- (ii) In the context of parliamentary control the matters in question may be classified as :

(a) *accounts*—

the proper spending of moneys sanctioned by Parliament; and

(b) *performance*—

the effective implementation of programmes approved by Parliament.

It may be remarked in passing that (a) and (b) are only two sides—(a) in terms of cash and (b) in terms of results—of the same transactions.

- (iii) It follows from (i) that both in regard to proper spending (accounts) and effective implementation (performance) only the most important items should be brought to the notice of Parliament.
- (iv) So far as proper spending is concerned, the Public Accounts Committee is the appropriate instrument of control; it should however confine its attention, and therefore its comments, to items of outstanding importance; and since the items dealt with by it are those included by the Comptroller and Auditor General in his Appropriation Accounts and Audit Report, it follows that the Comptroller and Auditor General for his part should ensure that these documents deal only with the most important items.
- (v) If the suggestion in (iv) is carried out, it automatically follows that the Public Accounts Committee will confine itself to functions which are both important and constructive. It will not deal with minor matters, including relatively small irregularities, in such a manner as to lay itself open to the criticism that it is helping to hinder initiative. It will, of course, continue to comment upon and draw pointed attention to instances of major irregularities. But, by the same token, too much of its time—and therefore of Parliament's—will not be spent on the *bona fide* decisions of those in positions of executive responsibility. Nothing is easier to inculcate than the habit of not taking decisions. And those hitherto accustomed to take decisions—and therefore risk—might hereafter

desist from doing so if the only result, in the event of something going wrong, is adverse notice by the Public Accounts Committee and a blaze of unenviable publicity in Parliament.

- (vi) If the Public Accounts Committee is thus enabled to confine itself to a relatively few important items, there is no reason why it should not also deal with the expenditure side of public undertakings.
- (vii) The aspect that remains to be dealt with is Performance, viz., programmes, actions and results not only of Departments but also of public undertakings. This could well come under the purview of one Committee specially constituted for the purpose and the present duplication of functions (as between the Estimates Committee and the Public Undertakings Committee) avoided.
- (viii) In order that the performance aspect—no less than the accounts aspect—is properly examined, analysed and presented to Parliament, it is necessary that there should be some organisation or group of experts to review and evaluate results, cost, efficiency and other aspects of performance. This organisation might grow *pari passu* with performance budgeting as a feature of the Central budget and the State budgets.

13.11. We may now proceed to work out the practical application of these considerations. We consider that the influence of the Committees of Parliament would be considerably enhanced if reorganisation is effected in the manner indicated above. In regard to the Public Accounts Committee, we would suggest that the Committee should, as has indeed been generally the case in the past, refrain from taking cognisance of matters involving administrative decisions or policy formulations unless these have been specifically reported to Parliament by the Comptroller and Auditor General in his audit report or in the appropriation accounts. To do otherwise would be an unhealthy departure from the practices and conventions which have stood the test of time. It is obviously important that this Committee, with its great potentialities for good, should exert pressure on points where it can bestow the greatest benefit and that it concentrate its attention on matters of major importance. We have suggested that

the jurisdiction of this Committee should be enlarged so as once more to include the expenditure side of public undertakings.

As regards the other two Committees—the Estimates Committee and the Committee on Public Undertakings—our proposals are indicated in the following two paragraphs.

13.12. We have at different places in this report laid considerable stress on the performance aspect both of budgeting and review. The last-mentioned function, namely, review of performance in relation to budgeted programmes is best done by a single committee of Parliament, which might be called the Performance Committee (corresponding to the Public Accounts Committee in relation to expenditure). The Performance Committee would then replace both the Estimates Committee and the Committee on Public Undertakings. The Performance Committee could have two wings, one dealing with the performance of the Government departments and Ministries and the other with the performance of the public sector undertakings. The Committee could be assisted by an organisation or a group of experts. These would assist the Committee in the same way as the Public Accounts Committee is assisted by the Comptroller and Auditor General. This Committee would place before Parliament a review of the progress of important projects, under the purview of departments or statutory corporations or Government companies. It would also be concerned with the cost and efficiency aspects of the projects and therefore, in particular, be interested in a study and examination of the actual planning, cost-benefit analysis, and the physical achievements of these projects.

13.13. We recommend, therefore, that in place of the Estimates Committee and the Committee on Public Undertakings, there should be a single Committee with the designation of Performance Committee of Parliament. The Public Accounts Committee would continue to operate on the appropriation accounts and audit report of the Comptroller and Auditor General, but in the new set up it would, in addition, concern itself with a similar report on public undertakings.



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PART THREE  
CENTRE - STATE FINANCIAL  
RELATIONS

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## **CHAPTER XIV**

### **CHANGES IN PERSPECTIVE**

14.1. We would preface our concrete suggestions in this and the following chapters by certain general observations on the substance of the financial relationship between the Centre and the States. This is because the procedural aspects with which, in a literal sense, we are concerned cannot be considered in isolation from institutional aspects, and the latter in turn are inseparable from the actual substance of the relationship as it undergoes change from time to time. Such change is inherent in any structure which is truly federal. It follows that in such a structure the relations between the Centre and the States cannot be readily codified. Institutions and procedures have to be adapted, not indeed frequently, but as occasion demands, to any substantial change of the political and economic context. Otherwise, procedures once considered appropriate might become sources of friction or frustration and seriously affect the operation of the federal relationship. Some of the important changes are enumerated in the following paragraphs.

14.2. When the federal Constitution was drawn up, it incorporated an important aim of federal finance, namely, the provision of certain basic services and opportunities to all the constituent units, having regard to their varying stages of development. This principle was sought to be made effective by a periodical devolution of Central taxes and disbursement of Central assistance among the various States on the basis of suitable criteria and through the instrumentality of the Finance Commission. But the context changed with Planning. It was considered necessary that the Centre should play an effective role in the whole process of development. This new role, it was thought, would be best fulfilled by the establishment of the Planning Commission. Among the most important levers operated by the Planning Commission was assistance to the States for financing their Plans. The Commission, conjointly with the Ministries, determined the quantum of the loans and grants to be given to the States for specific purposes. It also devised formulae which laid down in detail the conditions on which the loans or grants became payable. This one development altered the whole

profile of the Centre-State financial relations. The constitution contemplated most of the grants being provided under Article 275(i), the quantum and the basis being determined by the Finance Commission. This was, however, overshadowed by the new form of discretionary assistance from the Centre to the States under Article 282 of the Constitution, for the implementation of their Five-Year Plans. Thus the aggregate of Plan loans and grants (including those for Centrally sponsored schemes), expressed as a ratio of the total 'own resources' of the States, has gone up from 24.8% in 1951-52 to 70% in 1965-66. In contrast, the corresponding ratios for statutory grants of States are 4.8% in 1951-52 and 5.6% in 1965-66. For the amounts transferred to States by the devolution of taxes and duties, the corresponding ratios are 14.9% in 1951-52 and 17.8% in 1965-66. It was thus the Planning Commission, rather than the Finance Commission, that began to play the major role in the allocation of resources to States (in the form of discretionary grants). This was hardly a position contemplated by the Constitution. It raised the question of what precisely were the role and functions of the Finance Commission.

14.3. Another important factor has been a growing demand on the part of the States that decision-making in regard to the Plan should be much more decentralised. A federal constitution implies that the constituent units have adequate freedom in their own sphere to evolve policies which are suited to their own circumstances. The demand for decentralisation has been fortified by recent political developments. This, then, is the changed political context.

14.4. The economic context of the planning process has also undergone significant changes in recent years. There has always been a tendency to emphasise the 'needs' aspects of the Plan rather than its 'resources' aspects. The result is that size has tended to be out of proportion to resources. This in turn has fostered an element of unreality in the formulation and implementation of the plans at the State level. Since the 'needs' aspect of planning is over-emphasised, the State Governments are tempted to exaggerate their requirements and ask for increasing aid from the Centre. But the Centre can no longer aid as in the past. Resources are lower, prices higher and expenditure larger. Neither the Centre nor the States can afford to take the line that if plan size is taken care of, plan resources will take care of themselves. It is in this context that the Centre-State relations have to be refashioned

so that the plans in general and the State plans in particular become more resource-oriented and a larger degree of flexibility is introduced in planning at the State levels.

14.5. It would be necessary to see whether the objectives of the various procedures in regard to Central assistance have been achieved at all or whether somewhat different objectives have to be set. One of the main objectives of Central assistance to States has been to ensure that the States implement effectively those schemes and projects which have a certain rationale in the overall context of the national economy. In other words, the pattern of assistance devised was designed to facilitate the use of Central funds in channels pre-determined in the Plan. When it was found that these objectives were not achieved on account of lacunae in the procedures underlying the release of Central assistance, many reforms were introduced to simplify the procedures. Even then, the main objective of ensuring that the funds were used so as to achieve certain results has remained largely unfulfilled. Instead what has been achieved is an artificial uniformity in the schemes and projects of different States. In many instances, the States persuaded themselves to take up projects, not because of their own needs and priorities, but because the Centre gave them assistance on the condition that the prescribed patterns were adopted.

14.6. What is necessary, therefore, is clearly defined objectives of Central assistance, and consequent changes in procedures. These objectives should be as follows :—

(a) Certain basic priorities, kept to a minimum in number, have to be accepted by the Centre and the States; (b) subject to the foregoing, there should be a broad pattern of priorities which different States might adapt to their individual requirements; (c) the procedures of assistance should be such that the States are left with every incentive to develop and tap their own resources; and (d) all resources, whatever their origin, should be employed with the maximum economy and efficiency.

14.7. We are of the considered view that if these objectives are to be fulfilled, it will be necessary to reduce considerably the proportion of the discretionary element in Central assistance. The unconditional or 'untied' element of assistance would then increase. It should also be possible, as we shall later indicate, that the States can be told beforehand with reasonable certainty of the size of the untied assistance which

each of them will, over a period, be entitled to. This, together with the resources they are able to mobilise themselves should enable the States to plan more realistically their own schemes and projects in the manner best suited to their individual circumstances while remaining within the broad framework of the all-India Plan.

14.8. It is in the light of the changed circumstances and requirements outlined above that the question of devising appropriate institutional arrangements has to be settled. The organisational pattern should be such as to reconcile the regional needs and conditions in individual States with the broader priorities of the nation as a whole. For this to happen, the degree of Central control and co-ordination should be regulated by two factors : the need to maintain a national perspective and the need to promote local initiative.

14.9. It would appear that it is only in a qualified sense that we can think hereafter of one plan for the whole country and one plan for all the five years. Within the broader framework of major objectives and major strategy, the Plan has hereafter to possess two characteristics (i) flexibility in terms of the States and (ii) adaptability in terms of changing economic conditions. One consequence of this, in the limited context of Centre-State financial relations, would in our view be the desirability of reviewing the size of the untied assistance we have mentioned above, not every five years, but at more frequent intervals, say, once in two or three years. If, as we later recommend, the untied assistance is determined by means of a semi-judicial award, there could be one award of two years and another of three years following each other in rotation, any one Plan period being covered by two such awards.

14.10. In the next chapter we deal with the Finance Commission and set out our proposals for reorganising it.

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## CHAPTER XV

### FINANCE COMMISSION

15.1. An important function of the Finance Commission is to recommend the manner in which the residuary budgetary needs of the States may be met after taking into account the statutory devolution of Central taxes. The underlying idea is that the constituent units, with their varying degrees of progress should where necessary be assisted to attain a minimum level of development. In the light of this principle, the various Finance Commissions devised their own schemes for determining the quantum of statutory assistance to States. By and large, the emphasis has been on the need to meet the "budgetary gaps" of the States, interpreted in a rather narrow sense of the term. The first Finance Commission (1952), argued that the budgetary needs of the States should first be estimated by a detailed examination of the forecasts of revenues and expenditures submitted and then these should be reduced to a comparable basis by the exclusion of abnormal, unusual and non-recurring items of expenditure. Adjustment in these analyses should be made to take account of the extent of tax effort made by each State individually and also the measure of economy it had effected in administration. This would then help a broad judgement on the quantum of assistance that would be required. This general approach was sought to be qualified by a proviso that the level of grants-in-aid should be made dependent also on the level of social services reached in a State and any special disabilities to which it is subject should entitle it "to a further moiety of assistance".

15.2. Planning, as we have pointed out, changed the entire context. It became more and more difficult to assess the "budgetary gaps", since the budgets themselves increasingly reflected Plan expenditure. As already noticed, the bulk of the finance for State Plans was latterly found through Central assistance. This change in the Centre-State financial relationship influenced to some extent the thinking of the Finance Commissions. The Second Finance Commission (1957) recommended such assistance to the States as along with the promised Central grants would enable them to put through their plans. The Third Finance Commission (1961) recommended that "the total amount of grants-in-aid should be of an order which would enable the States, along with any surplus out of devolution to cover 75 per

cent of the revenue component of their Plans". But the recommendation was not accepted. When it came to the Fourth Finance Commission (1965) however, the dichotomy between non-Plan expenditure and Plan expenditure—however unreal from the point of view of a State's finances as a whole—became very evident. For reasons which it is not necessary to go into here, the Fourth Finance Commission confined itself to estimating the "non-Plan revenue gaps" of States. It recommended that these gaps should be eliminated by Central assistance. The whole question of Plan expenditure and resources to meet such expenditure was left to be tackled by the Planning Commission.

15.3. It is clear to us that one body, and not two different ones, should take a view of both Plan and non-Plan expenditure on the one hand and of all available resources on the other in order to arrive at a proper pattern of allocation to the States. In regard to such allocation, we are further of the opinion that what is needed today is a shift of emphasis, to the maximum extent possible, from discretionary grants to semi-judicial allocations. For obvious reasons the Planning Commission's decisions regarding apportionment of resources to States—however objective this might be would not be regarded by the States themselves in the same light as the quasi-judicial awards of the Finance Commission. The allocation has to be done by an independent authority. Our conclusion is that Finance Commission suitably reorganised for this purpose, should be entrusted with the total task, *viz.* of having a view of both Plan and non-Plan expenditure, both Central and State, and making the requisite allocations to the States. Before proceeding to suggest the lines on which the Finance Commission should be reorganised, it is necessary to examine the present position regarding Central assistance generally.

15.4. The total Central assistance that is given to States (other than specific assistance for non-Plan purposes) falls into four main categories. First, there are the "statutory" grants under the awards of the Finance Commissions. Second, there are the Plan grants and loans given to States on a matching basis. Third, there are the Plan grants and loans for schemes which do not call for a matching contribution from the State Government. Fourth, there is the Plan assistance, largely by way of loans, provided for specific identifiable projects of a manufacturing type or infra-structural in character such as irrigation, transport, power generation, water works, etc. Of these, the first category of assistance is "untied" and automatic. The assistance under the

second category is conditional, being limited to specific projects or categories of schemes; in practice, however, assistance of this type is available under broad heads of development so that the States can utilise it on various individual schemes according to their preference. Assistance of this type is partly in the shape of grants and partly of loans. The third category of assistance is strictly tied to specified schemes and is also on the basis of both grants and loans. In the last category which is largely in the nature of loans for infrastructural and manufacturing projects, there is very little of the element of grant. All except the "statutory" grants currently fall within the purview of the Planning Commission.

15.5. We propose to reclassify this assistance into three categories. First, there would be untied assistance. This would cover all assistance generally with the exception of the two categories specified below, viz., the second and the third. The second category would comprise assistance which is earmarked for a very small number of schemes of basic national importance. The third category would consist of assistance for financing projects in certain major fields of development such as power, major irrigation, transport and industry. The bulk of the assistance, as we have said, would belong to the first category; it would be untied and, like the present statutory grants, automatic. It appears from the budget documents of the Central Government that the sum total of (a) statutory grants to States and (b) Plan assistance for agricultural and other programmes broadly equals the current account surplus of the Central Government, excluding grants. It is necessary that appropriate criteria (not conditions) for allocation of assistance of this type should be devised. It is this function that should be vested in the re-organised Finance Commission. This body should be a permanent one. It would, in addition to its present function of devolution of taxes, devise criteria for allocating united plan assistance among the various States. A major portion of assistance may have to be given on criteria relatable to population area and relative backwardness and the remaining assistance on criteria relatable to the States' Plan on the one hand and, on the other, its performance in the agricultural sector or other specific areas of development, the emphasis thus being both on future tasks and past results.

15.6. Since some proportion of this assistance, though automatic and on a non-discretionary basis, will be related to the performance of the States in agriculture and other spheres, the Finance Commission will

have to review the achievements of each state. It has also to set up or co-ordinate the requisite machinery for this purpose. Further, it would be desirable that the awards of the Commission are given at intervals which are neither too long nor too short. That is why we have suggested that two successive awards, one for two years and the other for three years, together coinciding with a particular Plan period, might be suitable.

15. The reorganised Finance Commission would, of course, devise criteria for disbursing Central assistance under the first category in the light of the strategy, priorities and resources availability as laid down in the Plan. While thus it would take full account of Plan investments and estimates, it would, of its own, assess the extent of the total available resources, as also the portion which, out of such resources, might be set aside for allocation to States. Since the Plan mainly relies on estimates for the five year period, the Commission would be in a more advantageous position to revise and modify these estimates, if necessary, on the basis of the actual situation as it develops. It is true that even then it may not be possible for the Commission to indicate precise magnitudes of assistance to various States for the period of two (or three) years which would be the duration of its award. In that case, the Commission may lay down the proportions in which assistance is to be given to the various States. These proportions may be related to the current revenues of the Central Government in such a way that the total of the estimated allocations broadly corresponds to the current account surpluses of the Central Government (excluding the allocations themselves).

15.8. We are of the view that a Commission charged with these functions should be headed by a person of eminence and with a judicial background. Since the services of such a person, e.g., a Judge of the Supreme Court, are not likely to be available for more than a short period, he may be invited to serve for six months or so and preside over the Commission during its award-giving phase. The other members (excluding the Vice-Chairman) could also be appointed for this particular period only i.e. the award-giving phase of the Commission. For the rest of the time, however, the reorganised Finance Commission may continue as a permanent body with a small permanent secretariat under a Vice-Chairman. This body will undertake various studies regarding tax potential and expenditure trends of the States and, in particular, will be charged with the task of evaluating

or co-ordinating the execution of plan programmes both in the States and the Centre. The reorganised Finance Commission will work in close collaboration with the Planning Commission. In order to provide a nexus with the Planning Commission, we suggest that one of the members of the latter should be appointed Vice-Chairman of the reorganised Finance Commission, and in that capacity, virtually be in charge of this permanent body during the non-award phase.

## CHAPTER XVI

### SCHEMES OF BASIC NATIONAL IMPORTANCE

16.1. We have urged in the previous chapter that the area of untied allocations should be enlarged and that of discretionary grants-in-aid reduced in bringing about a modified relationship between the Centre and the States. We consider that the latter category, i.e. 'tied' assistance, should be confined to a very few schemes of basic national importance. It is essential that they should not be too many, as in our view are today's "Centrally sponsored schemes" (a designation which, incidentally, we would avoid using for the schemes we have in contemplation). It is also necessary that, starting with very few, they should not then proliferate into very many. For that might amount to re-introducing by the back door the whole system of discretionary grants.

16.2. The idea of certain schemes being drawn up by the Central Ministries and sponsored for acceptance by the States originated during the Second Plan period. In order to facilitate acceptance, more liberal assistance was offered along with the schemes. Consequently, although the States had the option to accept or reject, few showed any reluctance to accepting these Centrally sponsored Schemes. Their number, however, was reduced during the Third Plan in the light of certain criteria which were laid down for such schemes :—

- (i) they should relate to demonstrations, pilot projects, survey and research;
- (ii) they should have a regional or inter-State character;
- (iii) they should require lump sum provision to be made until they can be broken down territorially; and
- (iv) they should have an overall significance from the all-India angle.

The future of these schemes has been examined recently by the Planning Commission in consultation with the Central Ministries and the State Governments. The subject was also discussed by the National Development Council. Thereafter, the Planning Commission have reduced the number of such schemes by transferring some of them—36 in all—to the State Plans. The total outlay on the schemes

so transferred will now form part of the Fourth Five Year Plan outlay of the States, the Centre's share of the Plan outlay on these schemes being available as Central assistance over and above the amount already agreed to for the States' Fourth Plan. We understand that the remaining schemes (about 90 in number) will, according to present thinking, continue to be Centrally sponsored. The Centre's share of the outlay on these individual schemes will be provided in the respective Plans of the Central Ministries; the States' share of the outlay will form part of the Plan outlays of the State Government; and assistance in the form of loans and grants will continue to be given to the States in accordance with the existing pattern.

16.3. We consider the number too large in spite of the reduction. It is true that the listing of schemes as Centrally sponsored provides a convenient mechanism by which the identity and character of the individual schemes can be preserved. This is sometimes a significant advantage and is in contrast to the State Plan schemes whose distinct identity is lost by the merger of the schemes in the totality of the schemes under a Head of Development. At the same time, Centrally sponsored schemes have a number of other implications of their own. The States tend to accept such schemes without proper scrutiny from the point of view of either suitability or economy and sometimes even without being really interested, merely because their cost is met by the Central Government. Moreover, the acceptance of such schemes tends to have repercussions on the policies of the States in matters which are primarily under their jurisdiction. For these reasons, the point of view has been urged before us that the Centrally sponsored schemes should be abolished altogether. We feel there is much validity in this contention. But while we think this name should go, we consider it equally important to recognise that there is a minimum number of basically important schemes which, within constitutional limits and with, of course, the full cooperation of the States, the Centre must try its utmost to promote. We have in mind, for example; (i) Family planning and (ii) programmes of agricultural production based on high-yielding varieties of seeds. We feel that in such cases there should be tied assistance and the supervision that should go with "tied" assistance. This does not, however, mean that there should be a set pattern evolved at the Centre and obligatory on the States for every such scheme. On the contrary, once the objective in physical or other terms is agreed upon, considerable latitude should be left to

each State to evolve patterns most suited to that State. The objective and over-all target would be all-India, while the pattern would be adapted to the conditions of the State concerned in consultation with the Centre. The identity of the schemes could be retained, even though they form a part of the State plans. Their number, as we have emphasised, should be kept as small as possible.

16.4. We do not envisage that the list of schemes of basic national importance, would at any given time be something immutable or permanent. The national priorities may undergo transformation by the change of circumstances; new items of higher priority may arise while items enjoying high priority at present may not retain their importance, having fulfilled their purpose. The position will have to be reviewed from time to time though not at too frequent intervals. The list itself will, no doubt, be drawn up in consultation with the National Development Council.

16.5. Central assistance in the form of 'grants' and 'loans' is also given to States for non-plan purposes. Instances of such assistance are grants for the Border Security Force, Employment Exchanges, Relief and Rehabilitation of displaced persons and loans for Police Housing Schemes and the construction of certain capitals. Both loans and grants have been given to States in connection with natural calamities. All these are outside the plan and the assistance has been mostly on a 'tied basis'. Such instances may continue to be regarded as a separate category and assistance provided as at present by the Central Ministries.

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## CHAPTER XVII

### THE NATIONAL DEVELOPMENT BANK—ITS NATURE, SCOPE AND FUNCTIONS

17.1. It is in regard to the third category of assistance, *viz.*, Central loans to States for financing identifiable projects in fields like power, transport, irrigation and manufacture that we suggest a somewhat radical departure from the existing practice. The proposal made here is that, in a phased manner and over the next few years, there should be built up a new institution, to be known as the National Development Bank, for the purpose of channelling long-term finance to such projects. The attempt, it will be noticed, is—

- (i) to demarcate certain types of projects into a separate category, and
- (ii) in respect of that category, to replace existing arrangements by non-political, business-like and institutional procedures for the provision, from time to time, of investment and other long-term capital.

We may add that the contemplated arrangements would apply to both Central and State projects as long as these fall in the defined category.

17.2. From one important point of view, the justification for the proposal may be stated as follows :—

In the modified Centre-State financial set-up which we envisage, one aspect to which we have drawn attention is the cutting down of conditional or discretionary assistance to the minimum. At present the large bulk of assistance is discretionary, and there are literally hundreds of schemes for which the funds provided are conditional grants. Yet, there is not, and cannot be, adequate supervision on the part of the Centre in regard to the fulfilment of the conditions. More often than not, the conditions remain on paper, and what is promoted is irritation rather than implementation. Apart from other considerations, it is realistic to remove conditions which it is not practicable to supervise and which, on the whole, it may not be very important to enforce. But in this routine process, schemes of national importance as also schemes in which specific investment of a developmental type has taken

place get treated like hundreds of other schemes, and there is no real machinery for ensuring that the grants or loan-funds are being properly utilised and the conditions from time to time, properly fulfilled. Our concern, therefore, is to ensure appropriate supervisory arrangements—in conjunction with the financial arrangements—in those cases where it is really necessary, while doing away with conditions to the utmost in all other cases. There are obvious reasons why such arrangements, in the case of projects involving investment, should be non-political and institutional.

17.3. Moreover, the institution devised, besides being development-oriented, has to be professional and business-minded. The projects in question have to yield a return. This may be relatively high in some cases or small in other instances. But it is important to ensure in every cases that the return assumed when the project was sanctioned does in fact materialise. If this pre-condition is ignored, capital, already scarce, would tend to be used wastefully. The existing arrangements for disbursal of loans to such projects have been extremely unsatisfactory from the point of view of return on capital.

17.4. The proposed National Development Bank is designed to surmount, as far as may be, the difficulties mentioned above. Being a bank, it would, while granting financial assistance, initiate steps for effective supervision of the projects. Business principles would be observed to the maximum extent appropriate in sanctioning instalments of loans from time to time. This should also have the effect of making the project authorities more conscious of their responsibilities in respect of cost and return.

17.5. Three considerations have to be kept in view as regards the functioning of this Bank. First, this Bank should deal with loans and not also grants. Second, the assistance which might be purveyed by the Bank to the State Governments should be governed by the condition that the States should meet a specified part of the outlay. This is necessary in order to induce the States to put in greater effort to raise resources for the projects undertaken within their jurisdiction. Third, there might be need to introduce softer types of loans on the analogy of the International Development Association, an affiliate of the World Bank. Such loans would mainly be for infrastructural projects like irrigation, transport, etc. where the social rate of return is higher than private return. The softness of loans would be in the form of liberal

conditions governing the repayment schedule or the rate of interest to be charged on loans or both.

17.6. The broad sectoral as well as regional pattern of assistance would be determined by the Planning Commission. However, the assistance for individual projects—whether State or Central—would be left to the discretion of the Bank and would depend on the rational appraisal of the planned projects and their actual implementation.

17.7. Such a Development Bank would improve implementation in several ways :

- (1) The selection of projects would be done, as far as possible, on the basis of rational criteria evolved on the basis of Plan objectives;
- (2) It will ensure that the scrutiny of the techno-feasibility reports and the appraisal of the performance of the projects would be done with the critical eye of a banker and on considerations of merit and economic viability, financial returns, sound businesslike management, etc.
- (3) The Bank would be able to identify the causes of delays and waste in the implementation of projects and render useful technical assistance to remove the deficiencies in the process.
- (4) In view of delays in implementation of some projects, the Bank would be in a position to switch over resources from such projects to other worthwhile projects and thus ensure optimum and effective utilisation of its resources.
- (5) The Bank would induce the public sector enterprises to formulate and implement projects in a businesslike way. By placing the responsibility squarely on the project authorities for servicing the loans and for amortising them, it will infuse a performance and cost consciousness in them and they will be obliged to run their projects on business-like and commercial lines in order to secure the surpluses not only for paying interest charges etc. but also for paying dividend to the Central or State Governments as the case may be.
- (6) Scarce technical and managerial talents would be used with the maximum effectiveness.

(7) Foreign governments and international agencies are likely to be more willing to extend assistance through a Bank run on business principles than through the normal administrative channels.

17.8. By centralising these functions, it would be possible to evolve a sound investment programme and ensure an optimum use of resources. As a result, the administrative and political organs of the Government would be able to concentrate more on their other functions and there would be a considerable gain in efficiency.

17.9. We have already stressed that the activities of the Bank should be enlarged in stages, for it would obviously not be able to deal with an outlay of a few thousand crores without adequate preparation initially and adequate planning thereafter. A good starting point may be the financing of expansion of the existing projects. Perhaps, also such projects as involve familiar techniques of production may be taken up as they will not make heavy demands on the technical personnel. After gaining some experience, the area may be extended to projects whose gestation does not take too long and where the return is relatively large. From among projects such as manufacturing concerns, hydro-electric schemes, irrigation schemes and so on, those which are of a manufacturing type may be taken up in the beginning. Once the expertise is built up and the size of operation expands, the National Development Bank can extend its functions to projects with more complicated techniques of production. Such projects as would not qualify for being financed by the Bank would continue as before to be financed by the Governments concerned, Central and State.

17.10. Since the National Development Bank would not only be a financing agency but also an institution which would mobilise savings, it will have to address itself to ways and means to raise, on its own, the resources from the market. However, in the beginning, it may not be possible for the Bank to undertake a borrowing programme on any large scale either internally or abroad. Therefore, the resources of the proposed institution would have to be provided for in the Central Budget. As time goes on, and the area of its operations is further enlarged, the Bank can raise loans in the domestic market as well as abroad.

17.11. We may now refer in general terms to some of the organisational aspects of the National Development Bank. The equity capital should be wholly subscribed to by the Government of India. The general superintendence and direction of the affairs and business of the Bank should vest in a Board of Directors which, with the assistance of an executive committee, may exercise all the powers of the Bank. In discharging its functions the Board should act on business principles with due regard to the interests of national development. On questions of broad policy, it should be guided by such directives as may from time to time be given to it by the Government of India. The Bank may appoint one or more Advisory Committees for the purpose of assisting it in the discharge of one or more of its functions and in particular for the purpose of ensuring that due regard is paid to the requirements of particular areas.

17.12. The Bank may have either a part-time or a whole-time Chairman. He should be a person pre-eminent in industry, commerce, finance or banking and unconnected with Government. It should also have a Vice-Chairman, who should be part-time if the Chairman is whole-time, and whole-time if the Chairman is part-time. In addition, there should be a Managing Director with appropriate financial and banking experience. The Board of Directors should consist, in addition to the Chairman, Vice-Chairman and Managing Director, of one Member of the Planning Commission, one Deputy Governor of the Reserve Bank of India, a Finance Secretary of the Government of India and three Directors. Where the Vice-Chairmanship is part-time, the Member of the Planning Commission who is on the Board might appropriately be given this assignment thus ensuring better co-ordination with the Commission.

17.13. The bonds of the Bank would be fully guaranteed as regards the payment of principal and interest by the Government of India. The Bank should be prohibited from acceptance of deposits from the public on demand or on the expiry of fixed periods.

17.14. The National Development Bank should have adequate trained staff to appraise projects as well as supervise and watch the performance of selected projects. The utmost care should, however, be taken to avoid duplication of staff and of work. At present, there is a large body of trained personnel with the necessary expertise which is suitable for this purpose but which is dispersed over the various Central Ministries and the State Governments. Some

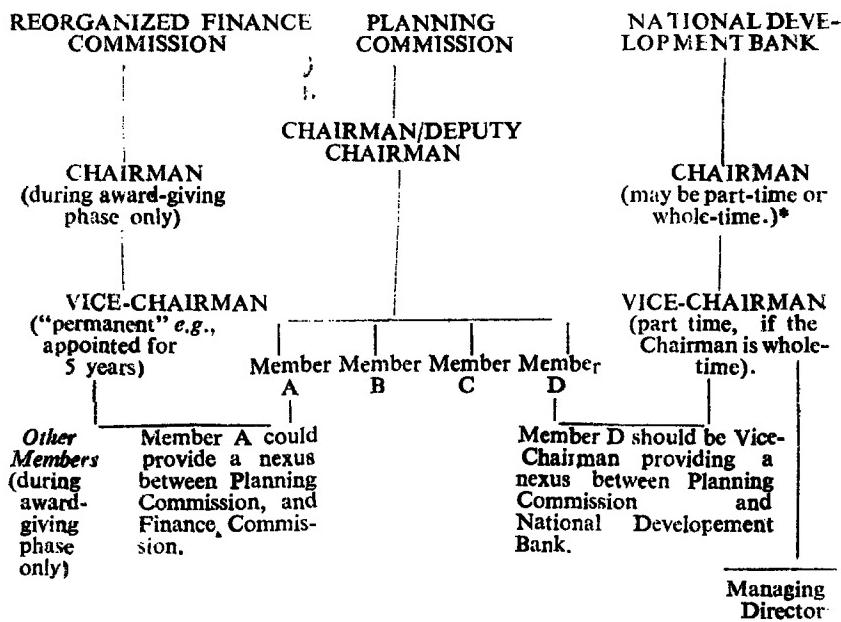
of them can be redeployed in the new organisation; others can be made use of where they are. Further the Bank should utilise specialised consultancy and other services to the maximum extent possible on the analogy of the Industrial Development Bank of India, the Industrial Credit and Investment Corporation of India and other similar financial institutions. This would help it to economise on overheads.

17.15. We have indicated the interlinking which, at the organisational level, would exist between the National Development Bank and the Planning Commission on the one hand, and the Planning Commission and the reorganised Finance Commission on the other. The co-ordination between these three bodies should result both in more realistic planning and more effective implementation. The accompanying diagram (annexed to this chapter) illustrates the main features of the schemes of coordination which we have in mind.

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## ANNEXURE

*Diagrammatic explanation of some of the proposals in Chapters XVI and XVII*




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\*If the Chairman is part-time and the Vice-Chairman has therefore to be whole-time, Member D of the Planning Commission would be merely a member of the Board of the National Development Bank. There would still be a nexus between the two bodies.

## CHAPTER XVIII

### THE BORROWINGS OF THE STATES

18.1. One matter of importance that remains to be dealt with as having a general bearing on Centre-State financial relations is the borrowings of States Governments from (a) the Reserve Bank of India and (b) the public. Apart from its relevance, any substantial borrowing by the States from the Central bank of the country has monetary and economic implications which must be of as much concern to the States as to the Central Government and the Reserve Bank. The same is also, of course, true of certain types of borrowings from the Reserve Bank by the Central Government. A different set of considerations arises in respect of borrowing—either by the States or by Centre—from the investing public in terms of Government securities. We propose in this chapter to deal with certain aspects of both these types of borrowings.

18.2. Under the existing constitutional provisions, *viz.*, Article 293(3) and (4), the consent of the Central Government is required to all borrowings by a State Government if the State has loans outstanding for repayment to the Centre. This consent may be given subject to such conditions as the Government of India may consider it appropriate to impose. Since, generally speaking, all States are indebted to the Centre, the borrowing programmes of State Governments are in effect subject to the approval of the Central Government. It would be useful here to outline briefly the procedures governing the borrowing transactions between the State Government and the Reserve Bank.

18.3. First there are the normal ways and means advances. These are almost automatic. They are made to the States at their request and are subject to certain limits which are related to the minimum balances that each State is required to keep with the Reserve Bank. Under the arrangements now in force, the States can borrow from the Reserve Bank up to twice the amount of the minimum balances.

18.4. Secondly, there is special ways and means accommodation. This is granted against the hypothecation of the Central Government securities, subject, in theory, to a limit of Rs. 2 crores. In practice,

the limit is not adhered to and the States can borrow a larger amount provided they can pledge Government securities of the requisite value with the Reserve Bank. Loans of this kind, though normally repayable within three months, are renewable after the expiry of the period. The debtor Governments clear the amounts borrowed either by the sale of the securities pledged or by making good the amount out of their budgetary receipts.

18.5. Thirdly, there is the form of irregular borrowing which has come to be known by the general term, 'Overdrafts'. The overdrafts are unauthorised in the sense that no prior arrangements in respect of them are entered into between the borrowing Government and the Reserve Bank. They result when the State Governments draw cheques on the Reserve Bank in excess of what they are authorised to borrow at the particular time. In view of the special, and in some ways delicate, relationship between the Reserve Bank and the State Governments the former is understandably reluctant to dishonour their cheques. Its usual practice in these circumstances has been to draw the attention of the State Governments to the debit balances and to request them to clear them as quickly as possible. This is sometimes followed by discussions with the States. The Central Government is also kept informed of the position. Sometimes the overdrafts are cleared through adjustment against Central assistance to the concerned State in relation to Plan schemes sanctioned by the Government of India. For obvious reasons, the auditors insist on the unauthorised overdrafts being cleared by the end of the accounting year of the Reserve Bank. Where the defaulting State Government is not in a position to do so, the Central Government takes over the debit balance. Thus the State Government's debit is ultimately transformed into a liability of the Centre, which has perforce to treat it as a special loan to the concerned State. Most of the overdrafts, especially those of long duration, not only contravene the provisions of the Reserve Bank of India Act, but are also not in conformity with the agreement entered into between the State Governments and the Reserve Bank of India. While overdrafts for short periods may be due to a temporary lag in the inflow of receipts, those continuing over a long period must be attributed to the persistent imbalance between resources and outlays. It is clear that, for more reasons than one, they present a serious problem.

18.6. The following appear to be some of the principal causes of the State Government's overdrafts :

- (i) The disbursing offices of the State Government—consisting of treasuries and sub-treasuries, both banking and non-banking—are widely spread over the length and breadth of the State. In the absence of proper coordination and control, they may draw amounts from the Reserve Bank which in the aggregate are, at a given point of time, in excess of the balances to their credit.
- (ii) Temporary shortfalls in the State's resources on account of payments made to other State Governments or the Central Government.
- (iii) Delays in the receipt of Central assistance.
- (iv) Large and unexpected expenditure—e.g. on account of floods—which has not been provided for.

18.7. It is clear that the last three causes do not present any very serious problem. They are *ad hoc* and the ensuing dislocation can be removed either immediately or over a relatively short period. It is the first of the different factors listed above—the one relating to disbursement through a wide-spread network of banking and non-banking treasuries that is relatable to a more chronic situation and needs more elaborate remedies. An arrangement that might perhaps be considered in this connection is that the various disbursing officers should be given limits of the grants which they can spend, as soon as the voting for grants is completed. In order to leave some leeway, the Finance Department could stipulate limits lower than the amounts voted for. At the end of each month the disbursing officer should reconcile the figures of expenditure in consultation with the concerned Accountant General and report them to the controlling officers in the Finance Department. An abstract of expenses by major heads could also be obtained by the controlling officer from the Accountant General concerned for checking the pattern and magnitude of expenditure with the grants voted. In this manner some control over the disbursements could be exercised. We understand that such an arrangement is operating in one State. Its efficacy could be examined along with the feasibility of extending it to other States.

18.8. Another remedy may be to put statutory limits on the States' borrowing from the Reserve Bank. If, for instance, it is provided by a suitable provision in the Reserve Bank of India Act that the State Governments' borrowing from the Reserve Bank should not go beyond a certain proportion of their current revenue resources at any point of

time, it would be an important legal safeguard against the overdrafts of the State Government. Such an arrangement would also have the advantage of a certain degree of flexibility. As the resources of the Government increase the absolute level of permitted borrowing would go up automatically. This practice is prevalent in many countries such as Malaysia, the Philippines, Canada, and West Germany.

18.9. We would at the same time stress that such a restriction should also apply, *mutatis mutandis*, to the Central Government in respect of its borrowings from the Reserve Bank. Under the existing system, the Central Government is free to borrow from the Reserve Bank to any extent on the basis of '*ad hoc*' or by the issue of dated securities. Though such a practice is intended to help the Centre in tiding over their temporary ways and means difficulties, it tends to persist and is thus an even more significant way of deficit financing than the States' overdrafts.

18.10. Another alternative might be for the State Governments to have for their banker, not the Reserve Bank, but the State Bank and its subsidiaries. The corollary of this would be to transfer the balances of the State Governments to these banks. By so doing, the credit transactions of States would become subject to the rules and regulations and business discipline that goes with commercial banking. The State Bank, for its part, is bound to insist on adherence to limits since, unlike the Reserve Bank, it is in no position to extend virtually unlimited credit. There is nothing unusual in this procedure. In the U.S. for instance, the States keep their balances with the commercial banks and draw from them at need.

18.11. We may now discuss certain issues connected with the State Governments' borrowing from the public. At present, the States go individually to the market, but there is a certain amount of co-ordination in that the Reserve Bank's clearance has to be sought as to the size and terms of the proposed loans.

18.12. However, the fact remains that State loans have not been conspicuously successful. We would here draw attention to three important features. First, the securities of certain States are quoted at heavy discount. It should be realised that the presumption that all Government loans should have the same degree of appeal to the investing public is not true in practice. The market for the State Government loans is not one entity. For one reason or another, the public have come to place the credit-worthiness of certain States higher than that of the

others. Furthermore, some of the State Governments are known to exert pressure to get their loans subscribed to within the stipulated period of flotation. A frequent result is that such loans are heavily discounted immediately after flotation.

Second, the Central Government loans command a higher market value than the State Government loans.

Third, the main purchaser of the State Governments loans are the State Governments themselves. The proportion of the subscription to these loans, either on a reciprocal basis or by the borrowing States themselves out of their own funds, has gone up substantially and is now around 28 per cent. This implies that, if brokerage etc. are taken into account, one centralised loan programme would be cheaper than the flotation of a number of State loans.

18.13. In view of this, we feel that it would be a good idea if the borrowing of all the State Governments was centralised. It is true that such an experiment was tried on two occasions—in 1954-55 and 1963-64—without much success. Yet we feel that it should be given a further and more systematic trial. Alternatively, it is necessary to ensure greater preliminary care on the part of the Central Government and the Reserve Bank in the matter of fixing the quantum of each State loan. Past experience indicates that some of the State Governments, after having been advised by the Reserve Bank, canvass for a higher figure with the Central Government; and instances are not wanting of the Central Bank having been subsequently persuaded to accept higher figures in some cases. There is a need for more effective co-ordination in this matter between the Reserve Bank and the Government of India.

18.14. So far we have confined ourselves to market loans. Another category of 'borrowings' is represented by small savings. Though this programme is organised by the Central Government, the States have a stake in it, insofar as they are given 66  $\frac{2}{3}$  per cent. of the funds raised by them in the form of saving certificates within their jurisdiction. We are of the view that the Small Savings Scheme has not succeeded in its principal aim of fostering new savings. Most of the savings come from the higher income groups or from Provident Funds, etc. In such cases the Small Savings Scheme is merely a convenient alternative outlet for investment which would have been made in any case. As far as genuine small savings are concerned, it is observed that the cost of sale of certificates to the low-income groups is even higher than the net proceeds

from the sale of certificates to them. The organisation of small saving instruments for this purpose is thus a somewhat costly operation. Such success as has been achieved by small savings has been through the scheme of post office savings deposits. It will be desirable to encourage this particular scheme through suitable measures.



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**C O N C L U D I N G  
S E C T I O N**

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## CHAPTER XIX

### ACKNOWLEDGEMENTS

19.1. It remains for us to make grateful acknowledgement of the assistance we have received from a large number of individuals and institutions. The Working Groups—on Performance Budgeting and Centre-State Financial Relations—have laid us under obligation by the thoroughness with which they have discharged the tasks entrusted to them. We are thankful to them and to each member, individually, of the two Groups as well as of the research team of the Indian Institute of Management, Ahmedabad.

19.2. Further, our thanks are due to the Planning Commission for permitting Sarvashri E. R. K. Menon, S. S. Viswanathan and A. Premchand, to the Ministry of Finance for permitting Shri A. G. Krishnan, and to the Indian Institute of Public Administration for permitting Dr. M. J. K. Thavaraj, to serve on the Working Group on Performance Budgeting. We would thank the same Institute for having spared Shri K. L. Handa for conducting certain case studies. We are grateful to the University of Bombay for having permitted Dr. D. T. Lakdawala to head our Working Group on Centre-State Financial Relations. We are also grateful to the Reserve Bank of India for having agreed to nominate Shri S. D. Deshmukh, Dr. V. V. Bhatt and Dr. D. R. Khatkhate, and to the Government of Maharashtra for allowing Shri D. G. Tungare and Shri K. Ramakrishna Iyer, to serve as members of the same Working Group. We are thankful to the Indian Institute of Management, Ahmedabad, for the readiness with which they organised the research study on performance budgeting.

19.3. We would thank the Central Government, State Governments, Public Sector Undertakings, Chambers of Commerce and other institutions and individuals who have sent replies to our questionnaire and otherwise assisted us in our enquiry. Our special thanks are due to the many officers, Central and State, who have participated in the several discussions we have held at Delhi and elsewhere.

19.4. We record our appreciation of the assistance we have received from Shri J. C. Luther, the Secretary of the Study Team. From our colleague, Shri N. S. Pandey, we have not only received considerable assistance but have derived advantage from his long association

with financial administration. To him and to the staff working under him, including Sarvashri B. L. Gaur, N. K. Andley and S. D. Batra, we would express our thanks as also our warm appreciation of the able and conscientious work which has gone into the preparation of the material placed before us.

## CHAPTER XX

### SUMMARY OF OBSERVATIONS AND RECOMMENDATIONS

#### *Introduction*

20.1. Two of the basic requirements of administration, of which financial administration is only a part, continue to be efficiency and economy within the framework of planned development, parliamentary control and federal inter-relationship. But efficiency and economy are themselves aspect of action or performance; and if there is one requirement today which is more important than any other, it is that policies, programmes, and administration should be oriented to performance. (Para. 1.5)

20.2. Since that economy is costly which consists in doing nothing, our suggestions concerning control—whether by Parliament or by the Finance Ministry—aim at preserving initiative and delegating real authority. (Para. 1.7)

20.3. In the context of the changing requirements of the Centre-State relationship, somewhat radical modification is needed in the Centre-State financial procedures, institutions and concepts. (Para. 1.8)

20.4. Not only are economy and efficiency all the more necessary in the context of planned development; together, these two factors make it essential that projects which involve large developmental investment should be completed without undue delay and extravagance and, above all, in practice yield the financial return on the expectation of which they have been formulated and sanctioned. If institutional measures are necessary for this purpose, they should be devised and adopted. (Para. 1.8)

#### *Objectives of a Budget*

20.5. Besides being the most important annual item on the agenda of Parliament, the budget serves a number of purposes, fiscal, financial and economic, administrative, managerial and developmental, in terms of each State or of the country as a whole. It is a document for parliamentary action and an instrument of parliamentary control. It is a management tool and a basis for administrative delegation. It sets

out a programme of development and enables the adjudgement of performance. These objectives are not mutually exclusive. But, if there is one overriding need today it is that all governmental processes—including the budgetary process—should be oriented to action and performance : action that achieves optimum results, the performance that involves not more than reasonable cost, effort and time. (Para 2.4)

#### *Performance Budgeting*

6. We recommend that necessary steps for the introduction, in a phased manner, of performance budgeting should be initiated at an early date..... It is, of course, necessary that adequate preparatory steps should be taken for the introduction of the system. The following steps are recommended :—

- (i) The Finance Ministry should assume responsibility for introducing the system and coordinating the various stages ;
- (ii) In the phased application of this system both at the Centre and in the States, priority may be given to departments and organisations which are in direct charge of programmes or activities (developmental or other) involving large expenditures.
- (iii) The analysis of the functions and programmes of the departments selected may, as suggested by the Working Group, be entrusted to a team of officers.
- (iv) A suitable training scheme may be devised for those who, at different levels will be concerned with the introduction of the scheme; and a manual of instructions on the subject might be prepared as soon as practicable.
- (v) Appropriate changes in the accounting system would be needed in this connection.

(Para 3.6)

#### *Financial Year*

20.7. We have thought it desirable to analyse at some length the practical implications of the various criteria to be applied for judging the suitability or otherwise of a financial year commencing on (i) 1st April as at present, or (ii) 1st July, or (iii) 1st October, or (iv) 1st January. These criteria are (i) accuracy of revenue estimates in the budget; (ii) accuracy of expenditure estimates; (iii) efficacy of performance; and (iv) convenience of legislators and administrators. Our conclusion is that, if the *status quo* is to be changed, the balance of advantage would lie in favour of 1st October, more especially from

the point of view of performance on which we have laid emphasis throughout the report. (Para. 4.11)

*Budget Estimates*

20.8. Various methods, not mutually exclusive, are employed in the scientific forecasting of revenue. The "Direct Valuation" method is the most comprehensive one, but depends for its success on the coverage and accuracy of the statistics available. The two Boards should review, from this angle, the adequacy of the statistical data now available to them and take measures to supplement them where necessary.

(Para. 5.4)

20.9. Some of the causes of overestimation of expenditure or of underspending are psychological. These are explained. Other factors underlying delayed performance pertain to departmental, including financial, procedures; the need to get clearance from a multiplicity of agencies; defaults on the part of contractors, delays in receipt of supplies of materials, and procedures regarding the release of foreign exchange.

(Para. 5.5)

20.10. We consider that managerial techniques such as PERT (Programme Evaluation and Review Techniques) and C.P.M. (Critical Path Method) should be introduced as early as possible in Government projects and Government Departments, especially those concerned with the execution of relatively big schemes. Among other things, the adoption of these methods should lead to a much larger measure than at present of calculated control over points of crucial delay—and in the same process to a much more reliable estimate than now obtains of the twin factors of time and expenditure. (Para. 5.6)

20.11. The Ministries, Departments or Offices should have well-equipped Budget Cells. This would eliminate inaccurate estimation due to out of date data, imperfect techniques and, lastly, inadequate familiarity with the practical aspects and vicissitudes of the schemes and projects for which the estimates are framed. (Para. 5.6)

*Budget in Parliament*

20.12. In the altered circumstances, the question of reviving the Standing Finance Committee to examine items for inclusion in the budget estimates need not be pursued. (Para. 6.2)

20.13. The device of a Committee of the Whole House to discuss the budget would be an unnecessary refinement. (Para. 6.3)

**20.14.** The allotment of more time for discussions on the budget, if thought necessary, could be provided by Parliament by suitable regulation of its internal business. (Para. 6.4)

**20.15.** We recommend that, as a rule, the Minister in charge should open discussion on the budget estimates of his Ministry and explain the policies underlying the estimates, the physical programmes planned, and the performance in the preceding year. (Para. 6.5)

**20.16.** It is desirable that specific dates should be fixed by which the Appropriation Accounts and Audit Reports thereon should be submitted—(a) by the Comptroller and Auditor-General to the Finance Ministry; and (b) by the Finance Ministry to the Parliament. We recommend that a provision to this end should find a place in the proposed Bill governing the functions and duties of the Comptroller and Auditor-General, the Comptroller and Auditor-General should be required to forward his report to the Finance Ministry by a definite date say, 15th January and the latter to submit it to Parliament by 31st January. These suggestions would apply *mutatis mutandis* to the State Governments also. (Para. 6.7)

*Budget, Plan and Economic Analysis :*

**20.17.** The lack of direct correlation between the Plan and budget heads not only renders it difficult and cumbersome to follow with real understanding the financial provisions made in the budget for Plan schemes, but in relation to the schemes in State Plans gives rise to special problems in the matter of regulating Central assistance. It is, therefore, necessary that a proper link should be established between the budget heads of account and the heads of development. (Paras 7.1 & 7.2)

**20.18.** A greater measure of uniformity in classification should be attempted to achieve better correlation and necessary modifications made in the heads and Sub-heads, etc. of accounts. We suggest that the position be reviewed in consultation with the Comptroller and Auditor-General and such changes introduced as are appropriate from this point of view. (Para. 7.3)

**20.19.** The link between the Plan schemes and the budget heads could be provided, for instance, by means of code numbers to be assigned to each scheme on the pattern of what is being done by the U.P. Government. This could be brought out in a separate document as a supplement to the budget literature. (Para. 7.4)

**20.20.** In view of our recommendation regarding Performance Budgeting in Chapter III, both the heads of development and the major and minor heads would need to be recast to bring about a better correlation between the Plan and the Budget documents. (Para. 7.5)

**20.21.** The main utility of the economic classification of the Central Government Budget is that it promotes a better understanding of the economic impact of Government's operations. To be really useful, the scope of this exercise should be extended to the budgets of the State Governments as also to non-departmental enterprises of both the Central Government and State Governments. (Para. 7.8)

**20. 22.** As in other advanced countries, economic classification should be integrated with the budgetary process itself. We, therefore, suggest that an economic analysis be presented of the budget estimates of each department. (Para. 7.9)

**20.23.** The efforts that are being made by the Central Statistical Organisation for compiling official series of savings and investment together with the recommended enlargement of the scope of economic classification would fulfil much more adequately than at present the needs of economic analysis and policy formulation.

(Para. 7.10)

#### *Lapse of grants*

**20.24.** If the Ministries or Project authorities could be given some assurance, albeit informal, by the Finance Ministry/Department that underspending in one year would not prejudice the budget estimates for the next year, the Department's reluctance to surrender funds in time would tend to diminish. (Para. 8.7)

**20.25.** Better phasing and programming of expenditure on a project, and the introduction of performance budgeting which would relate financial outlays to physical achievement, would also tend to reduce the incident of the lapse of funds. (Para. 8.8)

**20.26.** A prompt system of communication of the new budget grants is necessary in all cases. Besides this, a part of the difficulty could be met by a more liberal recourse to the system of Vote on Account. (Para. 8.9)

#### *Lump Sum and Token Grants*

**20.27.** The real meaning of "token grant" should be kept in mind and a token grant asked for only when funds required for new schemes

can be found by reappropriation, but the approval of Parliament has to be obtained since it constitutes a new service. (Paras. 9.2 & 9.3)

20.28. There should be a total ban on the inclusion of lump sum provisions in the budget. Important schemes which are not yet ready in detail for execution could be brought up in supplementary Demands and less important ones could be left over for the next regular budget. (Para. 9.4)

20.29. The administrative Ministries can and should take steps to obtain the clearance of their budget proposals from the Finance Ministry well before the final date stipulated in the budget calendar. Such proposals should be staggered over a longer period and should not clutter the Finance Ministry towards the end. (Para. 9.4)

20.30. Lump sum provisions should be regarded as permissible only in the most exceptional circumstances, e.g., where urgent measures have to be improvised for meeting an emergency. These could also be justified for meeting preliminary expenses on a project or scheme where item-wise estimates could not be worked out. For such purposes the amount of contingency funds might be increased both at the Centre and the States. (Para. 9.5)

20.31. Provisions are in most cases not thought of in terms of programmes, or expenditure in terms of activities. On the introduction of performance budgeting there is expected to be some change in this general attitude. A Department which thinks in terms of performance budgeting is unlikely to ignore the action content of scheme for which a large overall provision is asked for. (Para. 9.6)

#### *Review of Expenditure*

20.32. It is necessary to take notice of the various inadequacies revealed in the present procedure of expenditure reporting. A good system of progress reporting should provide a basis for a comparison of the current progress against the past and the projected schedule of work. Specifically, the object of expenditure reporting should be as follows :—

- (i) accounting data should facilitate the formulation of a policy and also throw up material that will make possible the assessment of the working of the policy.
- (ii) it should also render the action of each agency accountable to the higher agency or to the Legislature and through it to the public in the ultimate analysis. (Paras. 10.2 & 10.3)

**20.33.** An important requirement of planned economic development is a system of data reporting that would establish a rapport between the financial and physical aspects. The reporting system should be increasingly oriented to meet the requirements of performance budgeting. In a matter like financial reporting, modern techniques should be adopted over as wide an area as possible. In the context of increased financial responsibility of the administrative Ministries and Departments, there would be greater need of adequate internal reports for the use of both the Department and the Finance Ministry. (Para. 10.4)

**20.34.** The Comptroller and Auditor General and the administrative Ministries should in consultation take steps to ensure that expenditure figures are submitted punctually at all levels of the organisation.

(Para. 10.5)

**20.35.** For post-budget review of expenditure by the Finance Ministry the form of expenditure statement should be amplified in several respects and these should be submitted more regularly.

(Paras. 10.6 & 10.7)

**20.36.** Steps should be taken to remove the difficulties of administrative Ministries in the matter of watching the progress of expenditure. The real solution would lie in transferring the responsibility for maintenance of accounts to the executive agencies. The system of accounting has to be such that the Ministries and other administrative authorities below them, can discharge their respective responsibilities in as full, unhampered and effective a manner as possible. (Para. 10.8)

#### *Delegation of Financial Powers*

**20.37.** A scheme of delegation of financial powers which does not become operative until the last detail is approved by the Finance Ministry is unsatisfactory. Once the preliminary feasibility report has been prepared and accepted by Government the administrative Ministries should be permitted to sanction expenditure on essential preliminary items subject to certain limit, a proportion or percentage of estimated cost. (Para. 11.8)

**20.38.** Delay occurs in the process of scrutiny and examination by Finance. A time limit of say, four to five months should be laid down within which the approval of the Finance Ministry to a project or a scheme should be accorded, failing which there should be provision for the matter being automatically brought for decision before a Committee presided over by the Cabinet Secretary. (Para. 11.9)

**20.39.** The Ministry of Finance should play a more positive role in the matter of grouping of schemes and obtain for the purpose of approval the lists of related schemes (within which re-appropriation powers are vested in the administrative Ministry) at the time of formulation of the budget. (Para. 11.10)

**20.40.** A review of the rules for the delegation of financial powers may be made with a view to vesting more powers in the administrative Ministries in the matter of negotiating contracts and placing orders for materials and supplies. (Para. 11.11)

**20.41.** In the matter of creation of posts we recommend greater overall control. Many of the Work Study Units, on whose advice posts can be created, have not built up the expertise required for their becoming effective advisers in this respect. We are of the view that this function should be entrusted to a well-trained staff inspection unit composed of officers with adequate training in methods of work study, work measurement, etc. The new unit should be located in the Ministry of Home Affairs or in the Cabinet Secretariat.

(Paras. 11.12 & 11.13)

**20.42.** In cases of emergency giving rise to sudden increase in work, the Ministries and heads of departments should have powers to create temporary posts for short periods not exceeding three months in all.

(Para. 11.14)

**20.43.** Except in the case of creation of temporary posts, in emergent circumstances, there should be no powers of reappropriation which results in the enhancement of the provision for pay of officers, pay of establishment. (Para. 11.15)

**20.44.** A provision made for a "Non-Plan" item and not utilised should be allowed to be re-appropriated for a plan scheme (under the delegated powers) obviating the necessity of making a reference to the Finance Ministry in such cases. (Para. 11.16)

#### *Role of Financial Adviser*

**20.45.** There is an overriding need for prompt decisions and speedy implementation. From this point of view, it is of vital importance that the responsibility for the execution of the programmes and for delivering the goods should rest squarely on the Ministries and departments concerned. It is in the discharge of these responsibilities and as an integral part thereof that the need arises for internal financial advice. (Para. 12.3)

**20.46.** The responsibility of the Secretary of the Ministry should remain unimpaired, and he should, therefore, have the power to overrule the Financial Adviser, where necessary. There will be no place for a Financial Adviser outside the Ministry in the arrangements we contemplate. (Para. 12.4)

**20.47.** There is a definite advantage in the Financial Adviser being appointed with the concurrence of the Finance Ministry. The annual assessment of his work should be made by the Secretary of the administrative Ministry and the report of the Secretary Expenditure should also be obtained. The Finance Ministry should have an overall and coordinating interest in the careers of Financial Advisers. (Para. 12.4)

**20.48.** The Financial Adviser is expected to be a part of the top management team of a Ministry/Department. The Secretary will attach the highest importance and give the most careful consideration to the views expressed by the Financial Adviser. The relationship between them should be that of senior partners in a common enterprise. (Para. 12.5)

**20.49.** There would be great advantage in providing for the formulation of a uniform set of rules for the guidance of administrative Ministries in the matter of financial consultation/procedures. (Para. 12.6)

**20.50.** It should be obligatory on each administrative Ministry to have a Financial Adviser though on considerations of work load, etc., it should be open to Government to entrust to one official the work relating to more than one Ministry. (Para. 12.6)

**20.51.** The Finance Branches of the administrative Ministries should be strengthened and staffed with trained and qualified personnel. (Para. 12.6)

**20.52.** The Finance Ministry should not normally entertain references falling within the delegated sphere of an administrative Ministry. (Para. 12.6)

**20.53.** The recommendations relating to appointment of Financial Advisers and strengthening of Finance and Budget Cells might involve some extra expenditure, but this would be well worth incurring and would be well repaid by the improvement and efficiency of financial management. (Para. 12.7)

**20.54.** The Financial Adviser should come to their assignment with a background of administrative experience and at an appropriate stage should be given orientation in the functions and duties thereof.

(Para. 12.8)

**20.55.** Periodic interchange between the financial wing and other wings of administration will not only enrich the experience of those who are thus interchanged but also, in the long run, make for sounder finance as well as sounder administration.

(Para. 12.9)

*Control by Parliament*

**20.56.** Parliament's time is valuable. In so far as Committees draw Parliament's attention to specific matters, these matters must be important enough to justify Parliament devoting time and attention to them. In the context of Parliamentary control the matters in question may be classified as (a) accounts—the proper spending of moneys sanctioned by Parliament; and (b) performance—the effective implementation of programmes approved by Parliament. Both in regard to proper spending (accounts) and effective implementation (performance), only the most important items should be brought to the notice of Parliament.

(Para. 13.10)

**20.57.** The Public Accounts Committee will, it is expected, confine its attention, and therefore, its comments, to items of outstanding importance. It will not deal with minor matters including relatively small irregularities in such a manner as to lay itself open to the criticism that it is helping to hinder initiative. It will, of course, continue to comment upon and draw pointed attention to instances of major irregularities.

(Para. 13.10)

**20.58.** Nothing is easier to inculcate than the habit of not taking decisions. And those hitherto accustomed to take decisions—and therefore risk—might hereafter desist from taking action if the only result, in the event of something going wrong, is adverse notice by the Public Accounts Committee and a blaze of unenviable publicity.

(Para. 13.10)

**20.59.** The Public Accounts Committee should take over the expenditure side of the public undertakings. That leaves out performance, viz., programmes, actions, and results not only of Departments but also of public undertakings. This could well be dealt with by one Committee.

(Para. 13.10)

**20.60.** The Public Accounts Committee should, as has been the case in the past, refrain from taking cognisance of matters involving administrative decisions or policy formulation unless these have been specifically reported to Parliament by the Comptroller and Auditor General in his audit report. (Para. 13.11)

**20.61.** The review of performance in relation to budgeted programmes could best be done by a single Committee of Parliament, which may be called the Performance Committee. The Performance Committee could have two wings, one dealing with the performance of the Government Departments and Ministries and the other with the performance of public sector undertakings. It would be assisted by an organisation or group of experts in examination of the cost and efficiency aspects of the projects etc. (Para. 13.12)

**20.62.** The area of operation of the Public Accounts Committee should be enlarged to include the appropriation accounts and audit report thereon relating to public sector undertakings also.

(Para. 13.13)

*Changes in Perspective*

**20.63.** The procedural aspects of Centre-State financial relations with which we are literally concerned cannot be considered in isolation from institutional aspects. In the context of the changes in substance of the Centre-State financial relations, it is necessary to evolve clearly defined objectives of Central assistance to States.

(Paras. 14.1 to 14.6)

**20.64.** If these objectives are to be fulfilled, it will be necessary to reduce considerably the proportion of the discretionary element in Central assistance; the unconditional or "untied" element of assistance would then increase. The States have to be told beforehand with reasonable certainty of the size of untied assistance over a period.

(Para. 14.7)

**20.65.** Within the broader framework of major objectives and major strategy, the Plan has hereafter to possess two characteristics : (1) flexibility in terms of the States and (2) adaptability in terms of changing economic conditions. Consequently, it would be desirable to review the size of the untied assistance, not every five years, but at more frequent intervals, say, once in two or three years.

(Para. 14.9)

*Finance Commission*

**20.66.** One body, and not two different ones should take a view of both Plan and non-Plan expenditure and of all available resources in order to arrive at an appropriate pattern of allocation to States.

(Para. 15.3)

**20.67.** A reorganised Finance Commission should be entrusted with the total task of having a view of both Plan and non-Plan expenditure of both Central and State and making the requisite allocation to the States.

(Para. 15.3)

**20.68.** The total Central assistance to States may be classified as follows into three categories :

- (i) Untied assistance covering the existing statutory grants and all assistance generally, with the exception of the two specified below.
- (ii) Assistance earmarked for a very small number of schemes of basic national importance, and
- (iii) Assistance for financing projects in certain major fields of development such as power, irrigation, transport and manufacture,

(Para. 15.5)

**20.69.** Assistance for the first category should be untied and automatic. The total quantum of assistance should be determined on the basis of the current account surpluses of the Central Government. It is necessary that appropriate criteria for allocating assistance of this type should be devised and this function should be vested in the re-organised Finance Commission which should be a permanent body.

(Para. 15.5)

**20.70.** In addition to its present functions relating to the devolution of taxes, the reorganised Finance Commission would devise criteria for allocating untied Plan assistance among the various States. A major portion of assistance may have to be given on criteria relatable to population, area and relative backwardness, and the remaining assistance on criteria relatable to the State's Plan and its performance.

(Para. 15.5)

**20.71.** The re-organised Finance Commission will have to review the achievements of each State, particularly in the agricultural and other specified spheres. It would be desirable that the awards of the Com-

mission are given at intervals which are neither too long nor too short. Two successive awards, one for two years and the other for three years, together coinciding with a particular Plan period, might be suitable.

(Para. 15.6)

20.72. The reorganised Finance Commission would take full account of (a) the Plan investments and estimates, (b) extent of the total resources available, and (c) the proportion which might be set aside for allocation to States.

(Para. 15.7)

20.73. We are of the view that the reorganised Finance Commission should be headed by an eminent person with a judicial background, who may be invited to serve for six months or so and preside over the Commission during its award-giving phase. The other members (excluding the Vice-Chairman) could also be appointed for the particular period only. For the rest of the time the reorganised Finance Commission may continue as a permanent body with a small permanent secretariat under a Vice-Chairman. To provide a nexus with the Planning Commission, we suggest that one of the members of the latter should be appointed Vice-Chairman of the reorganised Finance Commission.

(Para. 15.8)

#### *Schemes of Basic National Importance*

20.74. Tied assistance should be continued to a very few schemes of basic national importance.

(Para. 16.1)

20.75. There should be a minimal number of basically important schemes which the Centre must try its utmost to promote, for example, (i) family planning, and (ii) agricultural programmes in relation to high yielding seeds. The objective and overall target in respect of these schemes would be all-India but the pattern would be adapted to the conditions of the States concerned in consultation with the Centre. Their number should be kept as low as possible and their identity retained.

(Para. 16.3)

20.76. The list of such schemes of basic importance would be liable to review from time to time by the Central Government in consultation with the National Development Council.

(Para. 16.4)

20.77. Assistance in the form of grants and loans for certain non-developmental purposes outside the plan may continue to be provided as at present by the Central Ministries.

(Para. 16.5)

*National Development Bank :*

20.78. Central loans to States for financing identifiable projects in fields like power, transport, irrigation and manufacture, should be channelled through a new institution to be known as the National Development Bank, which should be built up in a phased manner over the next few years. The contemplated arrangement would apply to both Central and State projects so long as these fall in the defined category.

(Para. 17.1)

20.79. The institution devised, besides being development-oriented, has to be professional and business minded. While granting financial assistance, it would initiate steps for effective supervision of the projects and observe business principles in sanctioning instalments etc.

(Paras. 17.3 & 17.4)

20.80. The following three considerations have to be kept in view as regards the functioning of this Bank :

- (i) This Bank should deal with loans only.
- (ii) The States should meet the cost of the projects upto a stipulated limit.
- (iii) There might be need to introduce softer loans.

(Para 17.5)

20.81. While the broad sectoral as well as regional pattern of assistance would be determined by the Planning Commission, the loan financing of individual projects—whether State or Central—would be left to the discretion of the Bank and would depend on the rational appraisal of the planned projects and their actual implementation.

(Para. 17.6)

20.82. The activities of the Bank may be extended in stages. Starting with the financing of the expansion of existing projects and projects with known techniques of production, the projects of a manufacturing type and hydro-electric and irrigation schemes etc. may be taken up in that order. Projects that would not qualify for being financed by the National Development Bank would continue as before to be financed by the Central and State Governments concerned.

(Para. 17.9)

20.83. While in the beginning the resources of the proposed Bank have to be provided in the Central Budget, in course of time, the Bank could raise loans on its own from the market—domestic as well as foreign.

(Para. 17.10)

**20.84.** As regards the organisational aspects of the National Development Bank, the equity capital should be wholly subscribed to by the Government of India. The general superintendence and direction of the affairs and business of the Bank should vest in a Board of Directors, which will be guided by the broad policy directives given by the Government of India, and act on business principles with due regard to the interests of national development. (Para. 17.11)

**20.85.** The Bank may have either a part-time or whole-time Chairman. He should be a person pre-eminent in industry, commerce, finance or banking and unconnected with Government. It should also have a Vice-Chairman. If the Vice-Chairmanship of the Bank is part-time, a Member of the Planning Commission could fill this post to ensure better coordination with the Commission. (Para. 17.12)

**20.86.** The bonds of the Bank would be fully guaranteed as regards the payment of principal and interest, by the Government of India. The Bank would not however accept deposits from the public.

(Para. 17.13)

**20.87.** The National Development Bank should have adequate trained staff to make technical appraisal of projects as well as supervise and watch the performance of selected projects. The Bank should utilise specialised consultancy and other services to the maximum extent possible in order to economise on over-heads. (Para. 17.4)

#### *Borrowings by States*

**20.88.** To avoid overdrafts, the State Governments should indicate the limits of the grants to their disbursing officers which they can spend and the controlling officers of the State Government should exercise control over disbursements and check the progress of expenditure against the grants allotted, in consultation with the Accountant-General concerned. (Para. 18.7)

**20.89.** As an effective safeguard against the overdrafts of State Governments, a suitable provision may be made in the Reserve Bank of India Act that the borrowings of State Governments from the Bank should not go beyond a certain proportion of their current revenues.

(Para. 18.8)

**20.90.** The above restriction should apply *mutatis mutandis* to the Central Government also in respect of its own borrowings from the Reserve Bank. (Para. 18.9)

**20.91.** As an alternative, State Governments may be required to borrow from the State Bank of India and its subsidiaries. As a corollary the balances of the State Governments would have to be transferred to these Banks. (Para. 18.10)

**20.92.** It would be a good idea if the public borrowing programme of all the State Governments was centralised. Though not conspicuously successful in the past, it should be given a further and more systematic trial. There should be greater coordination between the Central Government and the Reserve Bank in the matter of State borrowings. (Para. 18.13)

**20.93.** The small savings programme as operated at present has not succeeded in its principal aim of fostering new savings and the cost of operating the schemes in respect of low-income groups is relatively high. The scheme of post office savings deposits has been successful and this part of the programme should be encouraged through suitable measures. (Para. 18.14)

New Delhi,  
May 27, 1967.

Sd/-  
(B. Venkatappiah)  
Chairman

Sd/-  
(N. N. Wanchoo)  
Member

Sd/-  
(P. L. Tandon)  
Member

Sd/-  
(G. L. Bansal)  
Member

Sd/-  
(N. S. Pandey)  
Member

Sd/-  
(J. C. Luther)  
Secretary, Study Team.

Sd/-  
(D. T. Lakdawala)  
Member

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## **APPENDICES**

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## **APPENDIX I**

### **MEMORANDUM RELATING TO THE CONSTITUTION OF THE STUDY TEAM ON FINANCIAL ADMINISTRATION**

*Appendix I(i)*—Memorandum of the Administrative Reforms Commission dated May 28, 1966.

The Administrative Reforms Commission hereby appoints the following persons to constitute the Study Team on Budgetary Reforms, System of Expenditure Control and Procedures governing financial relations between the Centre and the States :

- |   |                 |
|---|-----------------|
| 1. Shri B. Venkatappiah,<br>Mafatlal House,<br>Backbay Reclamation,<br>Bombay-1.  | <i>Chairman</i> |
| 2. Shri N. N. Wanchoo,<br>Secretary,<br>Ministry of Iron & Steel,<br>New Delhi.   | <i>Member</i>   |
| 3. Shri P. L. Tandon,<br>Chairman,<br>Hindustan Leavers,<br>165-166 Backbay Reclamation,<br>Bombay.                                     | <i>Member</i>   |
| 4. Shri G. L. Bansal,<br>Secretary-General,<br>Federation of Indian Chambers<br>of Commerce & Industry, Federation House,<br>New Delhi. | <i>Member</i>   |
2. The Study Team will, in regard to the subject allocated to it, ascertain facts, locate the principal problem areas, examine solutions for the problems and suggest such of them as they would recommend for the Commission's consideration. The Study Team will submit its report as early as possible.

3. Shri J. C. Luther, Deputy Secretary, Administrative Reforms Commission, will act as the Secretary of the Study Team.

*Appendix I(ii)*—Memorandum of the Administrative Reforms Commission dated June 20, 1966.

The Administrative Reforms Commission appoints the following as the Member of the Study Team on Budgetary Reforms, System of expenditure Control and Procedures governing financial relations between the Centre and the States, in addition to those already appointed *vide* Commission's memorandum dated 28th May, 1966:

Shri N. S. Pandey,  
 Joint Secretary,  
 Administrative Reforms Commission,  
 Travancore House, Curzon Road,  
 New Delhi.

*Appendix I(iii)*—Memorandum of the Administrative Reforms Commission dated October 1, 1966.

The Administrative Reforms Commission appoints the following as the Member of the Study Team on Budgetary Reforms, System of Expenditure Control and Procedures governing financial relations between the Centre and the States, in addition to those already appointed *vide* Commission's memoranda dated 28th May, 1966 and 20th June, 1966 :

Dr. D. T. Lakdawala,  
 Head of the Department of Economics,  
 Bombay University,  
 Bombay.

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## **APPENDIX II**

### **SOME IMPORTANT ISSUES REGARDING BUDGETARY REFORMS, FINANCIAL CONTROL AND CENTRE-STATE FINANCIAL RELATIONS**

#### **I. OBJECTIVES**

##### *Emphasis on*

1. The following are amongst the main objectives and functions of the budgets of modern Governments :

##### *Accountability*

- (a) to set out clearly a statement of receipts and expenditures, specifying the amounts voted by the Legislature, the objects on which the amounts are to be spent and the operating agencies responsible for incurring expenditure;

##### *Plan correlation*

- (b) to indicate the correlation between the Development Plan as a long term programme and the Budget as an Annual Statement;

##### *Functions*

- (c) to indicate to the extent possible, the functions—administrative, social, developmental and other—which are sought to be subserved by the funds voted by the Legislature and the costs of such functions;

##### *Programmes*

- (d) to outline the programmes and activities proposed to be undertaken by Government together with the cost involved in them;

##### *Performance*

- (e) to set out in terms of physical targets (wherever possible) the programmes sought to be executed by Government together with an indication of past performance;

##### *Management*

- (f) to serve as an aid to better management in the planning, execution, control and review of programmes;

*Economic significance*

- (g) to indicate the economic significance of the programmes and policies envisaged in the budget; and

*Government policy*

- (h) to serve as an instrument of Government policy.

These functions and objectives are not mutually exclusive; in fact, the budgets of many countries are so designed as to serve multiple objectives, with a difference only of emphasis.

Which of the objectives mentioned above would you consider specially important to Government budgeting? Are there any other objectives which in your opinion are important?

2. Do the budgets of the Central and State Governments fulfil the desired objectives? If not, what modifications would you suggest?

## II. FORMULATION OF THE BUDGET

3. *The Financial Year*

It has often been suggested that the present financial year extending from the 1st of April to the 31st of March is unsuitable for various reasons such as uncertainty at the time of budget preparation about the south-west monsoon which has a dominant influence on our economy, the loss of a part of the working season in the beginning of the year due to the non-availability of sanctions of funds and the inability of the members of the Legislature to tour their constituencies at a convenient time. The 1957-58 Estimates Committee (20th Report, Second Lok Sabha) had suggested that the financial year may be changed to commence from the 1st of October. There have also been suggestions that the financial year should commence on the 1st of January or the 1st of July. What are your views on this point?

4. *Contents of Budget Papers*

The following are the main documents which are presented to Parliament in connection with the Central Budget.

- (i) the main Budget consisting of a General Statement of Revenue and Expenditure met from Revenue and a General Statement of Receipts and Disbursements, together with Detailed statements of revenue and expenditure met from Revenue, and Detailed Statement of Receipts and Disbursements.

- (ii) Explanatory Memorandum.
- (iii) Demands for Grants.
- (iv) Economic Survey
- (v) Annual Reports of Ministries.
- (vi) Annual Report on the Working of Industrial and Commercial Undertakings of the Central Government.
- (vii) An Economic Classification of the Central Government Budget.

Although the form and contents of these documents have been reviewed and revised from time to time in order to provide more useful and meaningful data, it has often been represented that these documents still do not give comprehensive information which would be of interest to the members of the Legislature and the common citizen. Some of the points made in this connection are :

- (a) the entire cost of a service or a function is not given in any one place in the Demands for Grants;
- (b) the Explanatory Memorandum does not give full information about the actual utilisation of loans and grant-in-aid given by the Centre to the States;
- (c) the Annual Reports of Ministries do not contain a sufficiently informative review of important schemes with reference to targets and achievements in physical and financial terms.

What, in your opinion, are the areas in which sufficient information is not available in the budget? Please indicate your proposals for overcoming these deficiencies in the light of the problems and difficulties which may arise in implementing them.

##### *5. Preparation and Scrutiny of Budget Proposals*

There has been a continuing criticism of lack of accuracy in Government Budgets. It has been pointed out that the estimates of revenue are not based on any systematic analysis and there is a persistent tendency to under-estimate revenue receipts. On the other hand, the estimates of expenditure are often found to be on the high side on account, partly, of indifferent planning and scrutiny of new schemes and unsatisfactory appraisal of continuing schemes. Another reason for loose budgeting is stated to be the considerable delay in the availability of information on the progress of expenditure

with the result that in October/November, at the time of framing the Revised Estimates in the current year and the Budget Estimates for the ensuing year, accurate information in respect of the progress of expenditure is available only till the month of July. It has been pointed out that lack of proper budgeting leads to such undesirable features as the provision of lump-sum and token grants, large savings and lapses of grants and the rush of expenditure towards the end of the year.

Please indicate what, in your opinion, are the basic reasons for such shortcomings in the budget as the under-estimation of revenue, the over-estimation of expenditure and inclusion in the budget of immature schemes or schemes without any details.

What are your views on the adequacy of the present arrangements for the preparation and scrutiny of budget proposals at various stages e.g. in the Administrative Ministry, the different wings of the Ministry of Finance, and the Planning Commission. If you consider the present arrangements inadequate, what remedies would you suggest ?

#### *6. The Budget and the Plan*

The lack of correlation between the annual plan and the budget both in the Central Government and the State Governments has been commented upon as a serious weakness of the present system. It has been pointed out, for example, that the developmental heads, adopted in the plan are at variance with the major heads adopted for budgetary and accounting purposes with the result that it is difficult to identify in full the expenditure included in the budget in respect of the various plan schemes.

What are your suggestions for achieving a better integration between the Budget and the Plan so as, among other things, to facilitate evaluation of the progress of Plan schemes simultaneously with a review of the Budget ?

Please set out your views in detail indicating the practical lines on which your suggestions can be implemented.

#### *7. Department-wise Grants*

The budget estimates are prepared on a departmental basis. The governing factor for classification is not the nature and objectives of the receipt and expenditure but the department or agency which has

to collect the receipts or to incur the expenditure. For instance, the provision for the building of a school or hospital is included in the P.W.D. grants and not in those of the Education Ministry or Health Ministry.

What are your views on the merits of the present system ? Would you advocate any change in this regard ?

#### *8. Programme Budgeting*

It is said that the dominant feature of the Indian Budgetary system is its emphasis on accountability : the system is not designed to suit the formulation and execution of specific programmes with emphasis on identification and achievement of specific targets in measurable terms. It has been suggested that the concept of programme budgeting should be employed to recast or supplement the present budget.

Do you consider that having regard to the institutional set-up and other relevant factors, it is necessary and feasible to introduce programme-cum-performance budgeting in India ? If so, what practical steps and stages would you recommend for implementing this suggestion ?

#### *9. Classification*

It has been said that the present system of classification of revenue and capital transactions is largely governed by administrative considerations unrelated to any scientific principles. For instance, there is a monetary limit for expenditure on new works which can be met from Revenues.

It has also been observed that while the demands for grants give separately the expenditure on Plan schemes, they do not exhibit non-Plan Developmental Expenditure. Further instances of this type could be mentioned.

Do you have any comments to make on these or other aspects of classification adopted in the Indian Budget?

#### *10. The Budget in Parliament*

There is a general feeling that the limitations of time and procedures in the present system do not give Parliament sufficient opportunity to examine and discuss budgetary plans and schemes in detail. It has been suggested in this connection that :—

- (a) the Standing Finance Committee which used to exist before the inauguration of the Constitution in 1950 may be revived to provide an opportunity to the members of Parliament to scrutinize new items of expenditure above a certain limit.
- (b) more time may be allotted for the consideration of each Ministry's demands for grants;
- (c) the demands may be discussed by the whole House sitting as the Committee of Supply as in the U.K. in an informal manner uninhibited by formal rules and procedures;
- (d) the House may divide itself into a few smaller committees for detailed examination of the grants for various Ministries.

What are your views in this connection? Have you any suggestion to make?

### III. EXECUTION OF THE BUDGET

#### *11. Delay in issue of sanctions*

It is said that valuable time in the months of April and May is lost in the execution of budgetary programmes in the new year on account of delays in the issue of sanction for schemes to be implemented by the Central Government as well as the Centrally-sponsored and Centrally-assisted schemes to be implemented by the States.

The continuity in the progress of current schemes is also said to be affected by break in the flow of sanctions as a result of the time-lag before the issue of sanctions in the new year.

Do you agree with these observations? Kindly give your comments with particular reference to the adequacy or otherwise of the present system of Vote on Account which is intended to temporarily provide funds for all schemes with the exception only of New Services to which such amounts cannot be applied. If the slackening of progress in the early months of the new year cannot be attributed to budgetary constraints, what do you think are the other administrative or procedural deficiencies which are responsible for this state of affairs? Do you think the Rule of Lapse of Funds at the end of the year has a bearing on this problem? In this connection various remedies have been suggested. It has been proposed by some that the annual grants should not lapse by the 31st March, but that they should be allowed

to be carried forward for a few months, say, till the end of June; another suggestion is that the grants should be sanctioned for a longer period, say, two years and that in some cases non-lapsing grants should also be sanctioned. What are your comments on these points?

### *12. Objectives of Budget Execution*

It has often been said that adequate arrangements do not at present exist for the follow-up and review of budgetary programmes. Adequate attention is not paid to regular and careful review of the progress of expenditure in financial terms in relation to the available appropriations. As for the physical targets envisaged in the various programmes, the review or appraisal is even less satisfactory.

If you consider the present procedures unsatisfactory, what suggestions for reforms would you offer?

### *13. Delegation of Financial Powers*

An important feature of the recent financial reforms in the Government of India is the delegation of enhanced financial powers from the Ministry of Finance to the Administrative Ministries and from the Administrative Ministries to the operating Agencies subordinate to them. At present, the relations between the Finance Ministry and the administrative Ministries in this regard are governed by the scheme introduced in June, 1962 and further clarified in the Finance Ministry's O.M. No. F.10(50)-E(Coord)/ 65, dated the 15th March, 1966. Accordingly, the financial powers of the Ministries have been considerably enhanced in respect of staff recruitment appropriation and re-appropriation among primary units, and contracts and projects, etc. Also the Ministries now have full power, subject to funds being available, to sanction expenditure on schemes, irrespective of the magnitude of such expenditure, provided the projects as a whole have been previously scrutinised and accepted by the Ministry of Finance.

It is held by some that the enhanced powers are available to Administrative Ministries only in name and not in practice and that the control of the Ministry of Finance has not been much relaxed. It has been pointed out in this connection that the Ministry of Finance take too much time in approving the projects as a whole with the result that piece-meal references are still required to be made to them on several schemes even in the post-budget period. On the other

hand, the Administrative Ministries are said to have shown little willingness to exercise all the powers delegated to them and even cases in which they are competent to decide continue to be referred to the Finance for 'advice' and/or 'concurrence'.

Would you consider that the powers delegated to the Administrative Ministries and by them to the authorities subordinate to them are adequate? If not, what modifications would you suggest? Please give your suggestion also on improvements in the policy and procedures with a view to making delegation more effective.

#### *14. Scrutiny by Finance*

An essential feature of the present relations between the Ministry of Finance and the Administrative Ministries is that the control by the Finance Ministry will be mainly through pre-budget scrutiny and through random checks, and work studies. However, the budget still provides for scheme on lump-sum or token basis either because the Ministries are unable to prepare necessary details on certain urgent schemes or such details as have been furnished by them have been adjudged inadequate by the Finance Ministry. The result is that a number of schemes continue to be referred to Finance for post-budget scrutiny although the schemes are included in the Budget. It has been suggested that this practice is responsible for considerable delay in the implementation of schemes.

If you share this view, would you give your comments on the underlying reasons and possible remedies for this situation (i) in the Central Government, (ii) in the State Government?

#### *15. The Role of Financial Adviser*

It has been suggested that there should be integration of administrative responsibility and financial control in the operating agencies and Administrative Ministries. Under the present arrangements in the Government of India, it has been left to each Administrative Ministry to decide whether a Financial Adviser within the Ministry is required for it or not. It is also envisaged that the Finance, Budget and Accounts work within the Administrative Ministry will be organised on a scientific basis under the control of the Internal Financial Adviser, where one exists, or a senior officer specially nominated for the purpose.

Please indicate in some detail your views on the role of the Financial Adviser with special reference to the following points :

- (i) Should the Administrative Ministry have a Financial Adviser under its own control or should he be under the control of the Ministry of Finance ?
- (ii) In either case should the Secretary of the Administrative Ministry have the power to over-rule the Financial Adviser ? Do you consider it desirable to lay down specific procedures to regulate the relations between the Secretary and the Financial Adviser ?
- (iii) What should be the relation between the Internal Financial Adviser and the Ministry of Finance ?
- (iv) Should the Secretary of a Ministry himself act as the Chief Accounting Officer ? In other words, should the payment and accounts organisation be placed directly under the charge of the Secretary as at present ? If so, what should be the role of the Financial Adviser in regard to such matters as control of appropriations and pre-audit checks on expenditure.

#### *16. Expertise in Financial Control*

It has often been pointed out that the recent reforms in the system of expenditure control have been mainly directed towards the regulation and adjustment of inter-relations between the Ministry of Finance and the Administrative Ministries; not much attention has been given to the need to develop and maintain specialised talent, well equipped in modern skills and techniques of budgetary and other financial controls. With the extension of Government activities into complex spheres of economic and industrial activities, the need has been felt for specialised personnel and techniques to render financial advice. It has been pointed out in this connection that the lack of expertise in principles and methods of financial control in the Administrative Ministries has resulted in poor planning and performance on their part and consequently in delays and difficulties in securing the approval of Finance to their schemes. It has sometimes been suggested that interchangeability of officers between the Finance and other Ministries would go a long way in developing financial skills and in promoting efficiency in the exercise of financial control.

What are your views in this matter ? Please give your complete suggestions for improving the methods of budgetary and expenditure control, both in the Administrative Ministries and in the Finance

Ministry. Would you advocate the creation of a specialised pool of officers with financial background and training?

#### *17. Control over Public Sector Undertakings*

It has sometimes been urged that there is too much interference from the Government in the management of Public Undertakings and that this has an adverse effect on their initiative and efficiency. There is also the opposite point of view that the Public Sector Undertakings have been given too much freedom and the arrangements for their control and supervision by the Government are not adequate.

What are your views in this regard? Please illustrate your comments with reference to specific features of the present pattern of relations between the Government and the Public Undertakings.

#### *18. Budget of Public Undertakings*

It has been suggested that the pattern of financial control over the federal corporations in the U.S.A., as laid down in the Government Corporation Control Act of 1945 should be followed in India also and business-type budgets including data on programmes and performance should be prepared by them for review and approval by Government. Would your favour this type of centralised control in some or all Public Undertakings?

### IV. REVIEW

19. The Estimates Committee of Parliament is concerned with the examination of the Estimates from the viewpoint of ensuring economy in governmental expenditure consistent with the declared policy. The Public Accounts Committee scrutinise the Appropriation Accounts and the reports of the Comptroller and Auditor General on the Accounts with a view to ensuring, *inter alia*, that the expenditure conforms to the authority which governs it.

(i) It has been suggested that the functions of the two Committees overlap in important areas and a more complete and unified system of Parliamentary review would be desirable. It is urged that the Committees should be merged into one committee which should be able to cover the whole range of estimates more adequately.

What are your views in this regard?

(ii) It has been observed that the present budgetary data does not give any evaluation at all of the past performance. Even when the actual expenditure is given in respect of the preceding year, the relevant data

of estimates are not given so that it is not possible to know how far the Government has been able to perform in accordance with the Budget Estimates.

Do you consider it necessary to introduce any change in this regard ?

(iii) The time-lag between the closing of the financial year and the compilation of the Appropriation Accounts and the Audit Report relating to that year is rather long.

Do you have any suggestion to reduce the time-lag ?

#### FINANCIAL RELATIONS BETWEEN THE CENTRE AND THE STATES

##### 20. *Co-ordination of Financial Relations*

In recent years the States' responsibilities have grown far out of proportion to their revenues. The gap between the States' own resources and the needs of their expanding functions has been widening progressively with the implementation of development plans. This has necessitated a phenomenal growth in the size of Central loans and grants to the States outside the purview of the Finance Commission. The procedures governing financial relations between the Centre and the States have been getting more and more complicated due to the multiplicity of channels of financial assistance and the complex procedures connected with them. It has also been remarked that there is a growing tendency to overlap in the functions of the Finance and Planning Commissions.

The recent increase in the ways and means advances of the States from the Reserve Bank has been another unsatisfactory feature.

A suggestion has sometimes been made that the present system of a quinquennial review by an *ad hoc* Finance Commission should be replaced by a systematic and continuous review by a permanent body such as the Australian Grants Commission.

It is claimed that such a device would also serve to co-ordinate the various resources of assistance, ensure an optimum mobilisation of the States' resources and enforcement of better budgetary and financial discipline.

What are your views in this matter ? Do you have any other suggestions for reforms in the procedures governing the financial relations between the Centre and the States ?

##### 21. *Central loans to the States*

The practice of granting loans from the Centre to the States is somewhat unusual as in other federations, such as U.S.A., Canada and

Australia, the Central Government makes only grants to the federating units. In India complex problems have arisen as a result of the phenomenal growth in the size of Central loans, their vast number and immense variety as regard different rates of interest and periods of repayment. The strain on the resources of the States in servicing and repayment of loans has also created difficulties. It has, sometimes, been suggested that the existing complex of loans should be simplified by a process of consolidation. It has also been suggested that a way would be found to ensure that the loans are repaid by the States only out of their revenue surpluses.

What are your views in this regard? Please indicate any other suggestion which you may have on this subject.

## 22. *Release of Funds*

It has been stated that the procedures for release of funds by the Centre are cumbersome and dilatory. Although the procedures have been streamlined from time to time, the situation is still not considered fully satisfactory. It has been pointed out, for instance, that there is an unnecessary multiplicity of patterns of financial assistance. The limitations on the States' discretion to divert funds from one scheme to the other have also been criticised in this connection.

What are your comments and suggestions in this regard?

### *APPENDIX III*

#### **DETAILS OF MEETINGS WITH THE CENTRAL AND STATE GOVERNMENT OFFICERS**

<i>Participants</i>	<i>Dates of meetings</i>
(i) Officers of the Central Government	27th, 28th and 29th December, 1966 at New Delhi.
(ii) Officers of the State Governments of Maharashtra, Gujarat and Madhya Pradesh.	5th, 6th and 7th January, 1967 at Bombay.
(iii) Officers of the State Governments of Uttar Pradesh and Rajasthan.	10th and 11th January, 1967 at New Delhi.
(iv) Officers of the State Governments of Madras, Mysore, Andhra Pradesh and Kerala.	19th, 20th and 21st January, 1967 at Madras.
(v) Officers of the State Governments of West Bengal, Assam, Bihar and Orissa.	31st January and 1st February, 1967 at Calcutta.
(vi) Economic Secretaries to the Government of India.	4th May, 1967 at New Delhi.

## *APPENDIX IV (i)*

### **ADMINISTRATIVE REFORMS COMMISSION**

*The extracts from the Minutes of the meeting of 2nd and 3rd August regarding the setting up of the Working Group on Performance Budgeting at New Delhi*

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2. The proposal in Shri N. S. Pandey's note on Performance Budgeting for setting up a small Working Group to examine in detail the various aspects of the concept underlying the techniques of Performance Budgeting and its applicability to Indian conditions was approved. It was decided that this Working Group should comprise :

(i) Shri N. S. Pandey (Convener)	Administrative Reforms Commission.
(ii) Shri J. C. Luther	Do.
(iii) Shri A. R. Shirali or his nominee	Ministry of Finance, (Budget Division)
(iv) Shri E. R. K. Menon	Planning Commission (Development Administration Unit)
(v) Shri S. S. Viswanathan	Do.
(vi) Shri A. Prem Chand	Do.
(vii) Dr. M. J. K. Thavaraj	Indian Institute of Public Administration.

The following would be the terms of reference :

- (i) to analyse and enunciate the principles underlying performance budgeting;
- (ii) to examine applicability of these principles to Government budgeting in India, and, in this connection, to make an attempt to recast and reclassify, on the lines of a performance budget, the operations of a few selected organisations out of the Ministries of the Central Government and Public Enterprises; and
- (iii) to report on what practical steps and measures would need to be taken if performance budgeting were to be introduced in India and to make suggestions for meeting the difficulties, if any.

\* \* \* \* \*

#### *APPENDIX IV (ii)*

*Order dated the 28th September, 1966 by the Chairman, Study Team on Financial Administration.*

In pursuance of a proposal discussed at a meeting of the Study Team held early in August, I have contacted various persons from the University of Bombay, Reserve Bank of India and the Government of Maharashtra in connection with the setting up of a Working Group for studying problems connected with "State finances and Centre-State financial relationship". As a result, a Working Group has been set up and met informally today in my room. It will have its first session on Saturday the 1st of October and will try to submit its report by the middle of November, 1966. The composition and terms of reference of the Working Group are as follows:

#### *Composition*

- (1) Dr. D. T. Lakdawala,  
University of Bombay *Chairman*
- (2) Shri K. Ramakrishna Ayyar,  
Financial Adviser to Maharashtra Government.
- (3) Shri S. G. Tungare,  
Deputy Secretary, Finance Department, Maharashtra Government.
- (4) Shri J. C. Luther,  
Deputy Secretary, Administrative Reforms Commission.
- \* (5) Shri M. Narasimham,  
Deputy Economic Adviser, Reserve Bank of India.
- (6) Dr. V. V. Bhatt,  
Director of Planning & Special Studies,  
Reserve Bank of India.
- (7) Dr. D. R. Khatkate,  
Director, Unit of State Finances,  
Reserve Bank of India.

<sup>\*</sup>Later replaced by Shri S. D. Deshmukh, of the Unit Trust of India.

*Terms of Reference :*

- (i) With reference to the States, to examine and suggest improvements, both generally and with particular reference to development schemes in the Plan and outside it, in—
  - (a) the methods and procedures relating to the formulation, presentation, approval and execution of the Budget;
  - (b) the systems of expenditure control with particular reference to the role of the Finance Departments of State Governments.
- (ii) To examine and suggest improvements in procedures for determining the quantum of Central assistance and the procedures involved in the release of such assistance by Union Government.
- (iii) To examine and suggest improvements in the present procedures relating to centrally sponsored and centrally assisted schemes in the State sector with particular reference to their co-ordination with the State Plans.
- (iv) To examine and suggest improvements in the present procedures with regard to the borrowings by the States from the public, from the Centre or the Reserve Bank of India.

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**VOLUME II**

**ACCOMPANIMENTS**

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## **ACCOMPANIMENT ‘A’**

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**R E P O R T**  
**OF**  
**THE WORKING GROUP**  
**ON**  
**PERFORMANCE BUDGETING**

**April 1967**

**GOVERNMENT OF INDIA**  
**ADMINISTRATIVE REFORMS COMMISSION**



ADMINISTRATIVE REFORMS COMMISSION  
*Sardar Patel Bhavan*  
*Parliament Street, New Delhi*  
*April 18, 1967*

DEAR SHRI VENKATAPPIAH,

I have great pleasure in submitting herewith the unanimous Report of the Working Group on Performance Budgeting constituted by the Study Team on Budgetary Reforms, System of Expenditure Control and Procedures governing financial relations between the Centre and the States.

2. I would like to avail myself of this opportunity of thanking all my colleagues in the Working Group for their unstinted help and cooperation in the studies undertaken.

*Yours Sincerely,*  
N. S. PANDEY  
*Convener, Working Group*

SHRI B. VENKATAPPIAH,  
*Chairman,*  
*Study Team on Budgetary Reforms,*  
*System of Expenditure Control etc.,*  
*Administrative Reforms Commission,*  
*New Delhi.*



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## *INTRODUCTION*

The Study Team on Budgetary Reforms, System of Expenditure Control and Procedures governing financial relations between the Centre and the States set up by the Administrative Reforms Commission has been engaged *inter alia*, on a consideration of the various methods through which budgetary reforms could be brought about in India to meet the present day needs. One of the suggestions considered in this connection is the desirability of introducing performance budgeting. Though there has been considerable discussion on the subject in and outside the country, the Study Team felt that the principles involved in the technique of performance budgeting and its applicability to Indian conditions should be examined in detail by a small Working Group to be set up for this purpose. Accordingly, at its meeting held on the 3rd August, 1966, a Working Group with the following Members was constituted by the Study Team :—

- (i) Shri N. S. Pandey (Convener)  
Administrative Reforms Commission.
- (ii) Shri J. C. Luther,  
Administrative Reforms Commission.
- (iii) Shri A. G. Krishnan,  
Ministry of Finance,  
(Budget Division).
- (iv) Shri E. R. K. Menon,  
Planning Commission,  
Committee on Plan Projects,  
(Development Administration Unit).
- (v) Shri S. S. Viswanathan,  
Planning Commission,  
Committee on Plan Projects,  
(Development Administration Unit).
- (vi) Shri A. Premchand,  
Planning Commission,  
Committee on Plan Projects,  
(Development Administration Unit).

(vii) Dr. M. J. K. Thavaraj,\*  
 Indian Institute of Public Administration.

2. The terms of reference of the Working Group on Performance Budgeting are :

- "(i) to analyse and enunciate the principles underlying performance budgeting;
- (ii) to examine the applicability of these principles to government budgeting in India, and in this connection, to make an attempt to recast and reclassify, on the lines of a performance budget, the appropriations of a few selected organisations out of the Ministries of the Central Government and Public Enterprises; and
- (iii) to report on what practical steps and measures would need to be taken if performance budgeting were to be introduced in India and to make suggestions for meeting the difficulties, if any."

3. The first meeting of the Working Group was held on the 10th August 1966. This meeting was devoted to a preliminary consideration of the approach and strategy to be adopted by the Working Group. The Working Group felt that with a view to assessing the organisational, administrative and other implications of performance budgeting, case studies in certain selected Ministries/organisations might be made in the first instance. It was decided for this purpose that a few organisations under the Central Departments of Agriculture and of Labour and Employment might be taken up. Subsequently, a number of meetings of the Working Group have been held and the Group or the individual members thereof have been meeting from time to time informally.

4. The case studies referred to above were conducted by Sarvashri E. R. K. Menon, S. S. Viswanathan and A. Premchand of the Development Administration Unit, Committee on Plan Projects, Planning Commission, all members of this Group. The organisations selected for this purpose are the Directorate of Extension and Training, the Exploratory Tubewells Organisation, the Delhi Milk Scheme and the

\*Except for the first meeting, Dr. Thavaraj could not be present as he had left for U.S.A.

Secretariat of the Department of Agriculture as also the Directorate General of Employment & Training and the Secretariat of the Department of Labour & Employment. The results of these studies and our recommendations thereon are contained in the following chapters and appendices.

5. The Working Group had the opportunity of discussing their studies, particularly the accounting aspects thereof, with the Study Team on the Role of Audit and Reforms in Accounts (a sister Study Team set up by the Administrative Reforms Commission). As the studies made by the Working Group were confined to Central Departments and since the accounts heads were common to both the Centre and the States, it was considered necessary that the studies should be extended to the State level also so that the implications of the introduction of performance budgeting on the accounting and reporting system could be studied. This was considered specially important in view of the significant organisational and operational differences between the Centre and the States. Accordingly, some members of the Working Group undertook a tour to Madras, Bombay and later to Calcutta to make a study of the organisational, administrative, accounting, reporting and other aspects of the Department of Agriculture in three States. A note covering these aspects was submitted to and discussed with the said Study Team. The views on accounting aspects as contained in this Report reflect the results of the studies at the State level as well.

6. Due to the paucity of time, the Working Group could not go into the question of performance budgeting for public enterprises which also, under our terms of reference, we were required to study. Such a study may have to be undertaken at a suitable time. It may, however, be mentioned here that the Government of India, Department of Economic Affairs, have in pursuance of the recommendations of the Estimates Committee (20th, 60th and 73rd Reports), issued orders in June, 1961 regarding the preparation and submission of performance-cum-programme statements and business type budgets by undertakings in the public sector. *Prima-facie*, the public sector undertakings may easily lend themselves to budget formulation on a performance basis. However, in the absence of a detailed study of the question, the Working Group is not in a position to make any recommendations in this respect.

*Scope of the Report*

7. This Report consists of seven chapters. The first two chapters are devoted to a consideration of the various aspects of the theory and technique of performance budgeting including historical perspective, the features of the Indian budgetary system, recent developments therein, its deficiencies in the present context of development, the factors that point to the need for reform and the desirability of performance budgeting in India. Chapters III and IV analyse the various aspects of introduction of performance budgeting in the Indian context, particularly the form and contents thereof, while Chapters V and VI discuss the administrative and other practical aspects of its introduction in India. The conclusions of the Working Group are contained in Chapter VII.

*Acknowledgements*

8. The Working Group is grateful to the officers and staff of the Departments of Agriculture and Labour & Employment at the Centre for their unstinted cooperation and help in conducting the case studies. It is also grateful to the officers of the Finance and Agriculture Departments of the Governments of Madras, Maharashtra and West Bengal, and the Accountants General of these States for their very willing co-operation and for the facilities provided. The Working Group wishes to express its gratitude to the Chairman and Members of the Study Team on the Role of Audit and Reforms in Accounts for the valuable guidance given to it in the course of its studies. It would also like to place on record its sense of gratitude to the Secretary, Administrative Reforms Commission for the keen interest he has been evincing in its work.

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## *CHAPTER I*

### **PERFORMANCE BUDGETING—THE CONCEPT**

#### *Historical Perspective*

9. (i) The concept of performance budgeting had its origin in the U.S.A. Though a programme based budget was in existence in various forms and details in some metropolitan centres and a few States in the U.S.A., the concept, as understood now, got a major stimulus as a result of the First Hoover Commission's Report (1949). The Commission recognised that the most important thing in budgeting is the work to be done or the services to be rendered and how much that work or services will cost. They, therefore, recommended that "the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities and projects...." Following the Commission's recommendations, the Federal Government of U.S.A. decided to formulate its budget from 1951 on a performance basis. The application of the concept was further stressed in the Second Hoover Commission's Report (1955). Substantial progress has been made in U.S.A., since then. In the wake of its success in the U.S.A. a few other developing countries have now adopted this technique, and many are in the process of considering its introduction.

(ii) It may be mentioned here that some distinction has been made in the past by the authorities on the subject between a programme budget and a performance budget, though the Hoover Commission did not seem to view them as different concepts. Recently, the U.N. Manual on Programme and Performance Budgeting has made a useful distinction between programme budgeting and performance budgeting. It seems that at the present stage of evolution of our budgetary system and the conditions prevalent in our country, it is not necessary for us to make any fine distinction between a programme budget and a performance budget. The term "performance budgeting" has, therefore, been used throughout this report to mean a programme and performance budget.

(iii) In this connection, it may also be mentioned in passing that recently a new programme budget (Planning—Programming—budget-

ing system) has been developed in the U.S.A., the purpose of which is to provide for more and better information for decision-makers at all levels of Government. It seeks to focus attention on alternative means to achieve carefully defined goals, specifying the full costs and benefits of each alternative, etc. Its special feature is the concept of long range planning and programming which is brought into the whole process of budget-making for the first time.

#### *Developments in India*

10. In India, performance budgeting had its echo in 1954 during the debates in the Lok Sabha on the Finance Ministry's control over expenditure, when a plea was made in Parliament for the introduction of performance budgeting in our country too. Subsequently, the theme was taken up by the Speaker of the Lok Sabha in the course of his addresses to the annual conferences of the Presiding Officers. A notable development took place when the Estimates Committee of the Lok Sabha in its 20th Report (1958) suggested that performance budgeting should be the 'goal' and that a beginning might be made in a few selected Ministries and projects. The Government while noting the suggestion of the Committee, indicated that the possibility of introduction of performance budgeting was 'already under examination' and that the feasibility of the technique would depend upon the outcome of the examination. The Committee reiterated its suggestion in its 60th Report and expressed the hope 'that the 1960-61 budget would be a performance budget, partly if not wholly'. The point was stressed again by the Committee in its 73rd Report dealing with public sector undertakings. Thereupon, the Government issued general orders of June 1961 drawing the attention of the administrative Ministries to the recommendations of the Estimates Committee and asking them to consider the issue of suitable instructions. However, so far, no appreciable progress appears to have been made in the matter. Recently, however, the Committee on Plan Projects of the Planning Commission has undertaken pioneering case studies on performance budgeting under conditions obtaining here. A small cell within the Development Administration Unit of the COPP has been placed, *inter alia*, in charge of these studies.

#### *Concept of Performance Budgeting*

11. Performance budgeting, as is generally known, is essentially a technique of presenting Government operations in terms of functions,

programmes, activities and projects. Through such a meaningful classification of transactions, governmental activities are sought to be identified in the budget in financial and physical terms so that a proper relationship between inputs and outputs could be established and performance assessed in relation to costs. The focus in a performance budget is basically different from that in the existing budgets of the type we have. The two differ both in their scope and content. Under performance budgeting emphasis is shifted from the means of accomplishment to the accomplishments themselves. It is primarily concerned with the ends to be served by the Government rather than on the money spent on several objects. The important thing under this technique is the precise definition of the work to be done or services to be rendered and a correct estimate of what that work or service will cost. A performance budget is prepared in terms of functional categories and their sub-division into programmes, activities and projects and not merely in terms of organisational units and the objects of expenditure. A performance budget thus developed in terms of costs and results facilitates management control by bringing out the programmes and accomplishments in financial and physical terms closely interwoven into one comprehensive document.

12. As already indicated, under the technique of performance budgeting, the whole gamut of governmental operations is divided into functions, programmes and activities/projects. A function represents a major division of the total efforts of the Government such as Education, Health, Agriculture, etc. Programme are broad categories within a function that identify the end-products or accomplishments towards the fulfilment of the objectives of a function and they broadly reflect the responsibilities of major organisational units. Activities constitute the collection of homogenous types of work in a programme, the purpose of which is to contribute to the accomplishments the end-products of the latter. The term project is generally used to distinguish such activities as are of a capital nature. To illustrate, education is a function, elementary education a programme, training of elementary teachers an activity and the construction of a school building, a project.

13. Three basic steps are envisaged in the introduction of a system of performance budgeting. These are :

- (a) establishing a meaningful functional, programme and activity classification of governmental operations;
- (b) bringing the system of accounting and financial management into accord with this classification: and
- (c) evolving suitable norms, yardsticks, work units of performance and unit costs, wherever possible under each programme and activity for their reporting and evaluation.

14. Broadly speaking, the main purposes sought to be served by performance budgeting are :

- (a) to correlate the physical and financial aspects of every programme or activity;
- (b) to improve budget formulation, review and decision-making at all levels of management in the government machinery;
- (c) to facilitate better appreciation and review by the Legislature;
- (d) to make possible more effective performance audit;
- (e) to measure progress towards long term objectives as envisaged in the Plan; and
- (f) to bring annual budgets and developmental plans closely together through a common language.

15. As a technique, performance budgeting has its merits and advantages especially for countries having development plans inasmuch as it serves to bring together at one place the financial and physical aspects of each programme thus facilitating better programming, decision-making, review and control for the management and for a more intelligible presentation of governmental activities to the public and the Legislature. However, it provides no remedy for the administrative deficiencies in the budgeting process. It is at best only a tool to be properly and wisely made use of by a well-organised administrative setup.

16. Performance budgeting has, it is contended, some limitations. The more important of them are briefly mentioned below :

- (a) Performance budgeting enables only a quantitative and financial evaluation of programmes and activities. It does not facilitate qualitative evaluation. This limitation is not, however, peculiar to this technique, since no budgetary

technique can make qualitative evaluation possible. This is to be achieved through other appropriate devices.

- (b) Its usefulness is somewhat limited in respect of activities that are not measurable in any precise manner. It is true that performance budgeting may not be as effective in non-measurable fields such as research, police, law and order, etc., as in development or construction areas where units of measurements are available. Nevertheless, even in such non-measurable areas, suitable bases can be developed to explain performance in a meaningful manner so that the effectiveness of the money spent may be known, though no value judgement is possible. At any rate, as a technique of presentation, it has its own advantages over the present system. (This aspect is further discussed in para 36(a)(i).)
- (c) The success of performance budgeting depends upon well-organised departments and agencies identifiable with programmes and activities. However, in practice, precise categories of functions and programmes corresponding to organisational units are rather difficult to achieve. A synchronisation of functions and programmes with organisations though desirable in the long run, is neither a precondition to nor an essential ingredient of a performance budgeting system.

## *CHAPTER II*

### **DESIRABILITY OF PERFORMANCE BUDGETING IN INDIA**

#### *Our existing Budgets*

17. The existing budgets we are having (hereafter referred to as the conventional budget) have been mainly designed to ensure legislative control and accounting scrutiny. The object is to ensure that funds are raised and money spent by specific authorities according to legislative sanctions. These conventional budgets are framed in terms of the various Ministries/Departments and the various organisations thereunder with expenditures broken down ultimately into the broad objects constituting the primary units of appropriation such as pay of officers, pay of establishment, allowances and honoraria, etc. Our budgets are conceived largely in financial terms and they emphasise the financial aspects and not so much the results of the proposed outlays. In other words, the conventional budget is accountability-oriented and is intended to facilitate itemised financial control.

18. The budget is admittedly one of the chief instruments of fiscal and financial policy as well as the means through which the administration carries out its activities. Besides being the principal mechanism to provide for accountability to the legislature and the means for ensuring financial control, the budget is, in the context of planned economic development, a principal device for the implementation of the programme and projects set out in the plans, a vehicle for carrying out government policies and decisions, a tool for better management of governmental operations and the chief source of data that will facilitate decisions on fiscal and economic matters. Briefly, a budget has three important functions in administration :—

- (a) It is a financial plan for realising the objectives of the department;
- (b) It is a means by which the approval of the legislature to the incurring of expenditure is obtained; and
- (c) It is the main instrument for ensuring financial accountability and control.

19. Having regard to the needs to be subserved by a budget in the context of the increasing volume and complexity of governmental spending, various improvements have been effected from time to time with a view to providing more and more useful information in the existing budget documents. Thus, we have quite useful material available in the Central Budget in the form of notes on Demands for Grants, notes on important schemes, annexure showing provisions for plan expenditure included in the Demands for Grants and broad details of important items of non-plan expenditure, etc. The notes on important schemes give a fairly detailed account of the various aspects of certain programmes and schemes. Similarly, there is another document called the "Economic Classification of the Budget". This document facilitates an appreciation of the impact of governmental expenditure on the national economy, tells us about government's savings and investments, the income generated by the governmental activities, capital formation and such other related matters as are relevant for economic analysis. This enables a macro-economic analysis of Government transactions. Yet another important document brought out to supplement the main budget is the Explanatory Memorandum. All these have helped in providing more information in the budget and making it a very useful set of documents.

20. It is being increasingly recognised that the objective of a sound budgetary system in a planned economy should be to ensure the achievement of plan objectives. The concept of accountability has now acquired a broader connotation than is indicated in its conventional usage. In the context of planned economic development, accountability is not merely confined to ensuring that the amounts have been spent for the various purposes and within the limits laid down in the budget but extends also to ensuring that the expected results are achieved. Thus, it has become necessary to ensure that the budget reflects the pattern of the Plan both in content and classification. The budget should help to reveal what was proposed to be done during a year in terms of the work to be done, the output to be achieved or services to be provided as envisaged in the Plan and what has actually been achieved both in financial and physical terms. In other words, by having a common classification for both the Plan as well as the budget, the annual budget could be made an operational document for carrying out the Plan objectives.

*Need for reforms*

21. It is in the above context that one has to assess the usefulness of the present budget and identify its deficiencies. No doubt, it is adequately suited to ensure financial and legal accountability, but its utility would be considerably enhanced if it gives a comprehensive picture of the total efforts of government in its functional fields, the economics of the activities, the results that flow from them and the relationship between inputs and outputs. The budget in its present form and presentation does not link the financial and physical aspects of programmes and activities nor does it provide adequate information on the effectiveness of the money spent on the several programmes and activities. It does not enable the public or the legislature to have a full grasp of all the activities of the government and judge its accomplishments in their proper perspective. The mass of details now furnished in the budget being diffused, it does not enable one to have an overall view of the financial and physical aspects of each programme, activity and the accomplishments thereunder. The conventional budget did not prove inadequate in the past when expenditures of limited magnitudes followed a set pattern. As mentioned earlier, such a system has not proved adequate to meet the growing demands made on it by the vastly increasing scope and complexity of governmental transactions. From the view point of the Plan implementation, our budgets have failed to provide an adequate link between the financial outlays and physical targets, notwithstanding the growing amount of data now being supplied in the budget documents.

22. The brief survey made earlier indicates the demands made from time to time for the introduction of performance budgeting in India. However, no attempt seems to have been made for a comprehensive examination of the relevance and utility of the concept in the context of Indian institutional framework. It is, therefore, necessary to consider the important issues bearing on the introduction of performance budgeting in our setting. This could be done in two ways—(a) by considering the deficiencies in the existing system and the merits and advantages of the new technique over the former, (this has been briefly covered in the earlier paragraphs) and (b) by a consideration of the various arguments against the introduction of the technique. The eventual conclusions, will, however, be based as much on the positive aspects, as on a consideration of the negative aspects.

23. As regards (b) above, the various doubts and misgivings may broadly be grouped as under :

- (i) Most of the purposes sought to be served by the technique of performance budgeting are being served by the planning process in some way and hence there is no need for performance budgeting.
- (ii) A good deal of data and information is being given on an increasing scale in the budgetary documents on the financial and physical aspects of various programmes and thus there is no need for performance budgeting.
- (iii) The financial accountability of the Executive to the Legislature will be impaired by the introduction of performance budgeting.
- (iv) A major part of the expenditure of some of the Central Departments such as Agriculture, Education, etc. consists of grants to the State Governments and, therefore, the performance thereof cannot be measured at the level of the Central Government.
- (v) Having regard to the institutional factors, a performance budget can, at best, be only supplementary to the existing budget and should in no case replace that, and
- (vi) The utility of performance budget may be greater in the context of the American type of relationships between the Executive and the Legislature as compared to our context in which the initiative in budgetary decision-making vests in the executive, the legislature being mainly concerned with approving or disapproving the policies formulated by the executive.

24. The Working Group has carefully examined these points and has come to the conclusions which follow. The first point made is that performance budgeting is largely a technique for planning, implementing and reporting both in financial and physical terms and that this is obtaining, in some measure, in our planning process. *Prima facie*, the contention seems to be an oversimplification both of the concept of performance budgeting as also of the virtues of the planning process. As indicated in the earlier paragraphs, the technique of performance budgeting is something more than a mere bridge between the financial and physical aspects of a programme. In so far as the

planning process is concerned, the experience during the last decade or so has indicated the inadequacy of the link between the two. It is also observed that because of the absence of a rapport between the financial and physical aspects of a programme, budgetary estimates were often either underpitched or overpitched with consequential impact on the allocation of resources. It had also, in turn, contributed in some measure to the gap between the physical targets and financial outlays. Thus, while programmes, targets outlays, etc., exist in the planning process, there is a lacuna in the existing system in that there is no well-organised operational framework. To the extent that such a frame-work would be supplied by performance budgeting, it would be greatly strengthening the existing planning process.

25. Secondly, it is contended that progressively more and more information about the various aspects, including the physical, of the programmes and projects is being given in the budgetary documents. It will be admitted that the Explanatory Memorandum, Notes on Important Schemes furnished in the Demands for Grants, the Economic Survey and the Economic Classification of the budget etc. have been providing a good deal of material which was not hitherto there. While these developments have been in the right direction, it is to be recognised that unless these somewhat disjointed efforts are coordinated and brought into a well-knit, purposeful and cohesive whole at one place, they are not likely to be of much help either in the formulation of programmes or in the evaluation of performance. It has thus to be seen that though there were various developments, welcome in themselves, yet, in the absence of a comprehensive scheme for budget-reform and also because they were often the result of attempts at meeting the requirements from different quarters, they tended to be diffused and were thus inadequate.

26. The third argument appears to be based on the erroneous impression that under performance budgeting, as emphasis is shifted to programmes and activities and their cost, financial accountability will be affected for want of line-item appropriation by organisations and departments. This fear is not well-founded, as under the form and technique of performance budgeting envisaged by the Working Group, the departments and organisations would retain their identity and the demands will continue to be in terms of objects of expenditure, (*i.e.*, units of appropriation) under the several programmes/activities of the organisations/departments. Therefore, financial accountability is not diluted; on the contrary, the more important aspect of accountability for results will also be secured.

27. The fourth contention relates to the nature of the expenditure of the Central Government. Outside Defence, a major part of the expenditure is incurred by the Ministries of Industry, Agriculture, Education etc. In the case of the Ministry of Industry, a sizeable element of expenditure is in the form of loans and investments in the share capital of public sector undertakings, while in the case of Agriculture and Education, the bulk of expenditure is in the form of grants and loans to the States. It is contended that it would be difficult to evaluate the results out of such loans and grants through the Central budget. It may be conceded that this poses some limitations. The manner in which this difficulty may be met is discussed in Chapter IV. It is, however, a matter of detail regarding the form and content of performance budgeting rather than the principle of performance budgeting.

*Performance budget as a Supplementary Document*

28. (i) The fifth argument mentioned above relates to the form in which a performance budget is to be presented. It is, however, implicit in the argument that what is being questioned is not so much the desirability of performance budgeting as the form thereof. The form of performance budgeting that would fit in within our framework, as envisaged by the Working Group, is considered in the following chapters.

(ii) The question posed, however, is whether it should be a supplementary document to the conventional budget or should replace it. In support of the former plea, it is argued firstly, that it may not be desirable to change an established practice and secondly that it would not be possible to prepare a performance budget within the period of three months that now forms the crucial period during which the budget is finalised and presented. The Working Group has given careful consideration to these aspects and is of the opinion that it would not be sufficient to have the performance budget document as a supplementary one to the existing set of documents, as in that case it will not have any impact whatsoever on the existing system. For one thing, the performance budget is being evolved to overcome the deficiencies in the existing budgetary process and framework and not to supplement it. The idea of a supplementary document in such a context would inevitably mean the continuation of the existing procedures, financial practices, accounting classification, etc., with their

inadequacies. Indeed, if performance budgeting is not made an integral part of the budgetary process, but only an additional exercise, unconnected with the main process, the advantages that are expected of it would not materialize. Secondly, performance budget is not merely a matter of form; it represents a change in concepts that has significant effects on the approach to the budget and the decision-making practices. The forms is only the culminating point of the various processes towards better management and control. The form of the document has no special significance apart from the presentation effect. The performance budget as a supplementary document would be somewhat of a fifth wheel to the coach. The appropriate method in the circumstances would be to adapt, evolve and introduce performance budgeting in such a way that it would fit in with our conditions and mitigate the transitional difficulties involved in the switchover, while continuing, at the same time, to serve the purposes expected of it. This can be done if a phased programme of conversion is drawn up and extensive as well as intensive training arranged at all levels. As would be seen from chapter IV, performance budget of the type we envisage does not displace the existing documents *enmasse*. It will, however, call for a re-casting of the existing budget documents as briefly explained in Appendix III-B.

29. The Working Group has also carefully considered the aspect whether it would be practicable to prepare a performance budget within the period of three months referred to above. In our planning process, both the implementation of programmes and the evolving of new ones are a continuous process throughout the year. Thus, in a way, budgeting would also be an all-the-year round process with the final stage of consolidation being reached in the period referred to above. Moreover, even under the present system, the administrative departments and organisations are enjoined upon to forward their budget proposals quite early in the financial year, say beginning with July. Information on programmes, activities, targets, achievements and other work-load data will be available continuously all through the year through a performance reporting system. The Working Group, therefore, feels that a performance budget can be compiled and consolidated during the same span of time as now.

30. Regarding the last point, it may be pointed out that the need for performance budgeting does not hinge on the executive-legislature

relationship. Apart from the reasons analysed above, performance budgeting is needed more than ever, for integrating the Plan and budgeting process, for building up an internal edifice of the financial outlays and accomplishment for each administrative agency, for quantification of the results from governmental outlays, for enabling a more purposive audit and parliamentary review and control and thus serving as a window, so to say, to every citizen of the country on the governmental activities.

#### *Applicability to States*

31. The Working Group is of the opinion that the introduction of performance budgeting should not be limited to the Central Government only. The budget of the State Governments may not have undergone some of the major developments that have become a feature of the Central Budget during recent years. Except for the additional volume on Plan schemes and the changes in accounting that took place in 1962—which were common to the State Governments as well—there would not appear to have been any significant developments in many States towards making the budget an effective tool for developmental planning. Even in respect of the Plan volume, there have been problems, pointed out more than once by the Central Public Accounts Committee, arising out of an absence of Plan-budget link. For this, as well as for the reasons mentioned earlier, which have an equal applicability to the States, it would appear necessary that performance budgeting be introduced in the States also along with the Centre.

#### *Cost-benefit analysis and performance budgeting*

32. The Working Group would like to refer to another aspect of performance budgeting here. A plea has been often advanced that cost-benefit analysis, related investment and programme planning and evaluation should be treated as an integral part of performance budgeting. While not denying either the merits or the need for such analysis, the Working Group would like to make a distinction between what is basically administrative planning and the purely budgetary process. In the context of our planning, some measure of investment and programme planning is undertaken in the formulation of a plan, and the role of a budget is directed, in the main, to annualising these

programmes and providing the requisite funds. The performance budget as visualised by us comes handy, appropriately at this stage, in building up the requirements of funds and drawing up a work plan for the year. We believe that cost-benefit analysis, investment planning and evaluation are really an integral part of the administrative planning process, which, however, is a necessary adjunct to the formulation and appraisal of programmes and activities in the annual budgetary decision-making.

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### *CHAPTER III*

#### *INTRODUCTION OF PERFORMANCE BUDGETING IN INDIA—VARIOUS CONSIDERATIONS*

33. Some of the broad features of the concept, technique and utility of performance budgeting have been discussed in the preceding chapters. The Working Group is conscious that since the technique of performance budgeting had its origin in the U.S.A. where the institutional framework is different from that in India, our approach to the subject should be conditioned by the institutional framework—constitutional, socio-economic and administrative—obtaining here. We are also conscious of the fact that in adopting performance budgeting, something more than a mere adjustment of procedures is involved. The technique of performance budgeting represents a change with significant incidental effect on the approach to the budgeting system and the decision-making practices employed at each level of executive management. Also, it is realised that the adoption and successful working of the new technique would involve the development of trained manpower, improved financial management practices, proper motivation and, last but not the least, financial resources. In the following paragraphs, an attempt is made to deal with some of the prerequisites and other related aspects that are vitally connected with the introduction of performance budgeting in our set-up.

##### *Functional classification and organisational pattern*

34. As has already been mentioned, one of the important steps to be taken for the installation of performance budgeting is the development of a classification system on functional lines in terms of programmes, activities and projects. In this connection a point that needs to be borne in mind is that a strictly functional classification may often cut across organisational lines. Activities and schemes under a given programme as also the programmes under a given function may often be executed by more than one department or organisation. In other words, it is difficult to find in actual practice, departments and organizations synchronising with functions and programmes. Though it would be ideal for management purposes if several functions of the departments and organisations are clearly segregated and the

programmes and activities identified with individual agencies and units, the continuance of the *status quo* in respect of administrative set up and arrangements need not be open to serious objection. In fact, it has been recognised that though a number of organisations may contribute to an individual service or function of Government, this does not imply that departmental responsibilities should be changed to conform to functional categories. For technical and other administrative reasons, it may often be necessary that one programme is executed by different agencies functioning under different departments. For the sake of functional classification alone, it may not be desirable to disturb the existing administrative arrangements. Therefore, while conceding that a functional classification requires an identification of departments and organisations with programmes and activities, we feel that satisfactory arrangements, under the existing set-up, can be evolved without detracting from the purposes sought to be achieved by a performance budgeting approach. Towards this purpose, it would be adequate if administrative arrangements could be made for the proper classification of the programmes and activities under the several organisations/departments, for the identification of responsibilities and for suitable reporting and the analysis of performance data.

35. The Working Group realises that as a corollary to the adoption of performance budgeting, steps should be taken in the course of time to evolve a regrouping of heads of account on a functional basis. The extent to which such a functional grouping at present obtains in India and the manner in which certain changes may be made therein along with certain practical aspects thereof are discussed in chapter V. The problems involved in having financial data in terms of programmes and activities in addition to the usual object classification are also discussed therein.

*Prerequisites for the introduction of performance budgeting in India—some aspects considered*

36. The more important prerequisites considered by some to be necessary for the introduction of performance budgeting in India may be examined now with a view to seeing how far they obtain here or could be secured.

(a) (i) It is occasionally suggested that since performance budgeting involves the measurement of the end-products of a programme

and activity, its utility will be doubtful in respect of a sizeable part of governmental operations where there are no end-products as such. Even in cases where the end-products can be identified and quantified, there appear to have been no systematic efforts at evolving work or performance units with a view to measuring the physical progress or accomplishments, except in such organisations as the Public Works Department, etc. It may, however, be mentioned here that the idea of measuring workload is not altogether unknown in India. Apart from the PWD., the O & M Units of the Ministries and the Staff Inspection Unit (previously the special Reorganisation Unit) of the Ministry of Finance, etc. have been engaged for quite some time in evolving workload factors, indices and ratios in respect of manpower utilisation and related aspects and have been adopting the technique of work study, work measurement, etc. Such efforts have, however, been confined hitherto mainly to government operations of a purely administrative type, e.g. a Ministry, Department office etc. It is the opinion of this Working Group that these studies can be carried further and suitable yardsticks/norms evolved in due course, for measuring the output and accomplishments in fields other than purely administrative which lend themselves to quantification in one way or the other.

(ii) It is relevant, at this stage, to consider another aspect of this question. There is a feeling that for purely administrative and maintenance activities of Government which form the bulk of expenditure, no measurement of results is possible. The Working Group has given careful consideration to this aspect and wishes to emphasise that physical measurement may be of three types : (a) Measures of accomplishment showing the effect of the work and the achievement of objectives or programmes, (b) Measures of end-products reflecting the results of the work or output and (c) Measures of workload bringing out the volume of work or the volume of work and time or the volume, time and costs. In combination with data on the employment of labour, the time spent and the resources expended, etc., performance or work measurement or productivity ratios can be developed to show results in terms of units. The measures to be used or the performance ratios to be developed, depend upon the kind of work or end-products. In governmental operations of a routine and administrative type, measures of workload should be adequate. This may be supplemented by a correlation of time spent with costs involved.

(iii) As regards areas like research, law and order, foreign affairs, personnel offices etc., it is often said that they do not lend themselves to any convenient measurements in the absence of specific end-products or results. While it will be unrealistic to attempt a quantification of their results with a view to forming a value judgment, it should, nevertheless, be possible to assess the outlays in comparison with the results obtained during the preceding year or in terms of selective inputs, etc. Even in such areas, suitable methods for evaluation could be developed and financial requirements of such organisations presented in a more meaningful manner in terms of their activities supported by useful write-up of the work done by them and the changes in workload, etc. Also, such a presentation and attempt at relating the money spent with the work done will create an awareness on the part of the administrative agency of the work being done and help in generating a cost consciousness in them.

(b) It has been suggested that, for the success of performance budgeting there should be a system of advance programming on a long term basis of government operations. However, while it may be argued that for the bulk of governmental expenditure outside the Plan, no well-developed advance programming exists, this is not the case with our programmes of developmental expenditure which are formulated in the context of the 5-year plan. We are now having long term programming with annual break down indicating operational tasks, time schedules, targets and other aspects. The Working Group feels, therefore, that with greater emphasis now being placed on the annual Plan process, it should be possible to frame budgetary requests adequately supported by necessary administrative planning and projection into the future.

(c) (i) It has also been contended that under performance budgeting, the outlay shown in the budget for any programme or activity should represent the total cost thereof and that the same should be available at one place. As mentioned earlier, this could be possible only if all expenditures are classified on a functional basis irrespective of the departments or organisations incurring them. This does not, however, seem to be a feasible proposition at present. The Working Group feels, therefore, that it would be sufficient if the cost of a programme or activity is separately available in relation to the departments or organisations incurring them. For these reasons, it need not be considered a serious drawback if in the initial stages, the total cost

of a programme or activity under a given function is not available at one place in the budget. (A detailed discussion on this as well as other accounting aspects is contained in chapter V).

(ii) As regards the indication of total cost, a major point to be recognised is that under the existing cash accounting basis, the cost of a programme or activity shown in the budget may not represent the total cost of the same. It has been recognised that, in the initial stages, accounts should not be unduly disturbed. Refinements such as accrual accounting, allocation of overheads like general administration and common services, etc., may also be deferred to a later stage. The introduction of performance budgeting elsewhere has not been made contingent on shift from cash to accrual basis. Moreover, the Working Group feels that the advantage to be gained by having total or full or accrued cost may not be commensurate with the cost and labour involved in a radical departure immediately from the long established accounting systems and practices. In fact, for a major part of governmental expenditures, cash basis of accounting may meet the requirements.

(d) Another point that has been mentioned as a prerequisite for performance budgeting is that the budgeting and administrative authority of a programme must be the one and the same. To a large extent, such an identification has been rendered possible as a result of the recent enhanced delegation of powers and changes in the budgetary procedures. The Working Group feels that with the greater delegation of financial powers and the increasing association of the representatives of the administrative Ministry with the budgetary process, the state of affairs will increasingly approximate to the ideal situation where the budgeting and administering agencies will be the one and the same. Also, if suitable norms and standards could be laid down in respect of a wider field of governmental activities as is inherent in performance budgeting and if the financial management skills could be developed in the administrative Ministries, they, with the aid of their financial advisers, will be able to formulate budgets in such a manner as to obviate the necessity of modification in a large measure by an outside agency, i.e., Finance Ministry. It is important that the administrative authority which is accountable for the results is fully taken into confidence in respect of its budget proposals.

(e) One of the important prerequisites or steps for the introduction of performance budgeting relates to the evolving of necessary financial data through the accounting system in terms of programmes and activities. It has been pointed out that in the absence of such an accounting system, performance budgeting cannot be sustained. It is recognised that the existing accounting system would need to be modernised so as to meet the needs of performance budgeting. Towards making it more purposeful, certain proposals have been considered by the Working Group and these are discussed in Chapter V *Reporting*

(f) Another point stressed in this connection is the need to strengthen the reporting system. An adequate system of performance reporting is admittedly a necessary adjunct to performance budgeting. At present, reporting is mainly in financial terms in the context of and on the lines of budgetary appropriations. Such a financial reporting has been designed mainly to facilitate expenditure being kept within the authorised amounts. In respect of major projects, however, reporting is generally more informative, and an attempt is also made to bring together the financial and physical aspects of a project or programme. The bias, however, continues to be predominantly financial and account-oriented in character. A progress report is an instrument that enables the higher levels to watch the implementation of schemes. Its purpose is twofold, to enable the formulation of policy and programmes on the one hand and to facilitate appraisal on the other. With a view to relating financial progress with actual achievements, it is necessary that both the physical and financial aspects are interwoven into a single report against a background of time and cost and a projection into future commitments. Such a performance reporting at regular intervals is an indispensable aid to performance budgeting and expenditure control. The Working Group, therefore, feels that a very much strengthened and reoriented reporting system will be an essential concomitant to the introduction of performance budgeting.

## **CHAPTER IV**

### **FORM AND CONTENT OF PERFORMANCE BUDGETING**

#### *Form of performance budgeting*

37. (i) One of the main tasks before the Working Group has been a consideration of the form and content of performance budgeting suitable to our conditions having regard to the well-accepted features and practices of our financial management system on the one hand, and having regard on the other, to the constraints such as the shortage of trained personnel and resources. Thus, while the basic principles and techniques as evolved elsewhere have been taken as the model, it has, in its application to be adapted to local conditions and requirements. The case studies conducted by the Working Group (Appendix I) illustrate the approach adapted in this matter. Broadly, the departments and organisations under the Government have been taken as they are and the objectives and functions of each department and organisation thereunder analysed. After their objectives have been enunciated, the programmes and activities of each department and organisation are identified. The financial requirements of the departments are then presented in terms of the programmes and activities of each organisation thereunder. In other words, a programme and activity classification is made with reference to each department and organisation. In addition to the presentation of financial needs under programmes and activities, a table is also added giving the object classification. This is followed by a narrative explanation justifying the financial requirements under each activity. The narrative explanation will, *inter-alia*, provide all aspects of the activity including the targets, achievements, relevant workload factors, performance ratios to the extent possible and comparative performance over the years, etc. This will, in short, be the main performance budget document relating to each department. For purposes of illustration, the existing form of budget presentation as also the proposed presentation under performance budgeting relating to one organisation, viz.. Directorate General of Employment and Training is given in Appendix I (Case study-A—Part I).

A chart is also added at the end of this chapter showing the form of the budget as it is now obtaining and as it would be under a

performance budget in respect of one organization under the Department of Agriculture, namely, the Delhi Milk Scheme. A case study of the Department of Agriculture appears in Appendix I—'B' of this Report.

(ii) It is obvious that under this arrangement, the total expenditure under a function and programme will not be available at one place in the budget. The Working Group feels that the overall position under a function or programme can be indicated by means of suitable tables to be incorporated for the purpose, either in the beginning of the budget document or in the Explanatory Memorandum. The main performance budget mentioned above giving the financial and physical aspects of the programmes and activities will be accompanied by the Demands for Grants. The latter document will be more or less the same as now except for the modifications corresponding to those proposed to be made in the major and minor heads of account as also in the sub-heads. Appendix III-B to this report briefly indicates the differences between the documents under the existing approach and those under the new approach.

(iii) An illustration regarding the proposed accounting and budgetary structure is given in Appendix III-A. One feature that merits special mention is the simplification of the units of appropriation or the sub-heads. They are far too many now. The number may be reduced as indicated in the Appendix without, in any way, diluting the control of expenditure.

#### *Grants and loans to States*

38. As briefly touched upon in Chapter II, one important issue which this Working Group came across concerning the scope of performance budgeting, was the sizeable grants and loans given by the Centre to States on the one hand and by the States to the local bodies and Panchayati Raj Institutions etc. on the other. The question is : to what extent the technique of performance budgeting could help in measuring and evaluating the results or end-products when the grants so given are spent by other administering units whose transactions are outside the purview of the budget of the donor authority. In so far as loans are concerned, they are given for specific purposes and are repayable. In the opinion of the Working Group, it may not be a serious limitation to the technique, if in respect of such loan transactions, the performance is not reflected in the budget of the

giving agency. It will be enough if the loans are classified as such and a brief note added explaining the purposes sought to be achieved by them. It is to be recognised that these loans are given after careful consideration and on scrutiny of their merits and purposes. The expenditure defrayed out of these will be reflected in the budgets of the receiving units in terms of programmes and activities. In the federal structure of our government, an overall view of performance or accomplishment is possible only after taking into account the budgets of the central, state and other local governments. The results or end-products of the loans need not, therefore, be reflected in the accounts of the giving agency.

39. As regards grants, these too are given generally for specific purposes after a careful assessment of the requests. We feel that if a suitable note is added in the budget explaining the purposes for which the grants are given and if this is supplemented by other administrative devices for obtaining regular periodical reports about performance from the receiving and spending agencies, the needs and requirements of the situation would be met. Moreover, their actual utilisation for the purposes for which the money was given is also ensured in audit. Therefore, after careful consideration of the various aspects, we feel that grants and loans may conveniently be shown as such and that no performance measurement or evaluation need be attempted in the budgets at the giving end. This is the case in the federal budget of the U.S.A. also.

#### *Budgetary presentation of important projects*

40. The case studies conducted by the Working Group are in respect of only a few organisations in the Central Government. They did not involve a performance analysis in respect of any projects. At present, for such projects, brief notes are given in the budget. It is the feeling of this Working Group that more information on a regular pattern, relating to important projects should be given in the budget so that there could be a better appreciation of the targets and accomplishments. Most of such projects are to be found in the industry, power, irrigation, mines and metals and transport sectors. Some of these projects are managed or run by Government-owned autonomous corporations and bodies such as the companies registered under the Indian Companies Act 1956, and by autonomous boards like the Electricity boards, port trusts, etc. The notes at present furnish a write-up of a somewhat general nature on these bodies and

corporations with no specific analytical data in respect of overall targets, total cost, annual phasing of the programmes and unit costs, time schedules and other aspects. The presentation of more data on the above lines would obviously be desirable.

41. The introduction of performance budgeting in the existing circumstances and at this stage of the development of our institutions and procedures may be attended with some initial difficulties. But, in our opinion, these difficulties should be capable of being resolved in a satisfactory manner, given the necessary motivation, resources and a spirit of cooperation. The benefits to be derived from the new technique should not be viewed in terms of costs involved, but have to be viewed in the larger context of securing benefits resulting from more effective control, greater efficiency and all-around improvement in governmental operations. The conversion to performance budgeting has to be viewed as a major step towards the improvement of the budgeting structure with a view to better comprehensibility and towards making budget a programme-oriented document. Having regard to the significant changes involved, the installation process should, of necessity, be carried out in a phased manner. In the nature of things, the introduction of this technique has to be an evolutionary process to be developed and extended gradually over a number of years. As one writer has observed, "the performance budget process in government.....is not a destination, but a pilgrimage....."

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## CHAPTER V

### ADMINISTRATIVE AND ACCOUNTING IMPLICATIONS

42. In this chapter, we deal with some of the administrative aspects and implications of the adoption of the technique of performance budgeting. As mentioned already, the introduction of performance budgeting requires the availability of trained personnel, financial discipline, regular and efficient system of recording and reporting of financial and physical data, efficient organisation, close co-ordination between different agencies, and above all, some amount of motivation as well. All these conditions or factors may not be always obtaining in every case to the desired extent. Therefore, the adoption of the technique in practice would require a somewhat cautious approach. The development of sound financial management practices must be given due emphasis while considering a programme of conversion, for, however good the technique may be, it cannot be imposed upon an administrative and financial system not fully equipped for the purpose.

43. The basic objective of expenditure control all these years has been to limit actual expenditure within the amounts provided in the budget under the several heads and units. All the reforms carried out in the past were mainly devoted to ensuring itemised control both at the budget formulation and execution stages. Measures have been taken from time to time in the past to vest more powers, autonomy and responsibility in the administrative ministries by the delegation of enhanced financial powers and by the establishment of suitably equipped finance and accounting cells to help them in financial management. The Working Group feels, however, that the system of expenditure control still remains largely accountability oriented. The growing volume and complexity of public expenditure in recent years, especially with the launching of the Plans, have necessitated a change in the nature and scope of expenditure control. The need for the maximisation of benefits by prudent and economical spending is now greater than ever before. Resources being always limited, their allocation among the several sectors of the economy, the determinations of *inter-se* priorities among sectors and among programmes within a sector,

the selections of projects and schemes on the basis of an assessment of relative costs and benefits and the achievement of tasks in an activity or project according to the time and cost schedule through means of regular reporting of financial and physical progress—all these have assumed importance. Expenditure control is thus wider in scope now and is no longer limited to ensuring expenditure within the limits of the approved appropriations, although the importance of such an objective is no less important in the process of budgetary execution.

44. What is stated above brings us to one of the important consequences of performance budgeting. Since a performance budget represents a financial and work plan in terms of programmes, activities and projects, their costs and results, targets and achievements, it is extremely helpful to the administrative authorities at all levels in regulating, supervising and controlling the work. The control of expenditure is rendered possible both in terms of the amounts expended and the money's worth that was produced as against what was programmed for. The data thrown up makes possible a more effective programme management. It also facilitates decision-making in a more organised and purposeful way at all levels. The administrative authorities would be enabled to exercise better control aided by the fund of data and facts thrown up under performance budgeting.

45. Performance budgeting is, we would emphasise, essentially a management concept. It, therefore, requires appropriate delegation of authority and responsibility to the operating agencies and the provision of the necessary tools to perform the job assigned to them. There should be a regular system of financial and work plans for approval, execution, reporting and the evaluation of schemes and projects. Towards that end, an adequate system of reporting and evaluation has to be developed to support performance budgeting. (This aspect has already been touched upon in the earlier chapters.)

46. Already, there has been a change in the role and function of the Ministry of Finance in regard to the sanctioning of schemes and the incurring of expenditure etc. With the introduction of performance budgeting, there will be a change in the manner and process of scrutiny and a review of the budget proposals. Eventually, the control will come to be exercised by a systematic analysis of the intrinsic merits of each programme both by itself and *vis-a-vis* other competing programmes and on a review of the overall outlay involved in a programme

in terms of its immediate and long term draft on the resources. The budget in such a situation would be the result of a consideration of the alternative programmes and proposals so reviewed and accepted. This purpose is, to some extent, served in our conditions by the present planning process. This necessarily implies that the *raison-d'etre* of some of the existing procedures and practice would need a review. It would also imply that the budget review will now be undertaken with a functional and programmatic approach and in a more purposeful and integrated manner.

47. A very essential aspect that has to be borne in mind in connection with performance budgeting is the existence of a well-equipped finance and accounts cell in the administrative ministries and organisations which may eventually be entrusted with the responsibility of maintenance of accounts. At present, though there are finance or accounts cells in existence in the ministries, their adequacy and capability to meet the new situation and to deal with new problems will have to be considered. It will be necessary to give adequate training to the staff and to strengthen their organisation.

#### *Changes in the accounting system*

48. One of the basic steps for the installation of a performance budget is the development of timely financial data through the accounting system in terms of programmes and activities that will aid management at all levels in arriving at decisions in budget formulation, execution and review. In the absence of such an accounting system, the utility or successful working of performance budgeting is liable to be affected. However, in considering the changes needed in the accounting system, one has to bear in mind the prevailing conditions and the financial and administrative consequences of any large scale isolation in the accounting structure. The working group has, therefore, endeavoured to strike a balance between the essential requirements of performance budgeting and the need to keep the changes in the existing system at as low a level as possible.

49. (i) Under the financial management system in India, a common classification of accounts heads is adopted for the budget and the accounts. Though the establishment of a classification system on functional lines is desirable under performance budgeting, it is likely to give rise to certain problems in the existing circumstances. The existing

organisation-*cum*-object basis of classification was evolved decades ago. This was primarily meant to subserve the purposes of accountability. The accounting structure which was, to a large extent, recast with effect from 1-4-1937 on the introduction of provincial autonomy, did remain largely unchanged till 1961-62 when certain important improvements were effected to facilitate better analysis of government transactions in the context of the vastly developed field of activities and to bring about a measure of refinement. An attempt at a functional regrouping of heads of account and their rationalisation was thus made during 1961-62. As a result of these changes, the major heads of accounts, as existing now, generally signify broad functional areas such as agriculture, education, public health, etc. They primarily correspond to the major departments and incidentally to broad major functions of Government. However, in view of the organisation-*cum*-object basis of classification now obtaining, expenditure under an activity or programme which is controlled by more than one organisation or department is reflected under more than one major head in the revenue and capital divisions. As a consequence, expenditure on programmes and activities lay dispersed under several heads.

(ii) Ideally, it is desirable to bring together the total expenditure under a given programme or activity within a functional area and to evolve a system of classification that will permit all such expenditure to be available at one place in budget and accounts irrespective of the agency executing them. This is, however, not easy to achieve as it would involve large scale disturbances in the existing administrative and accounting arrangements. This would mean modifying the present principles of classification so as to permit the booking of expenditures under the appropriate functional heads irrespective of the departments incurring them. However, for historical, technical and other administrative reasons, it has come about that one programme is sometimes executed by more than one agency each coming under a different department. It may not, therefore, be possible to bring about uniformity in this regard in all the States. Under the conditions of administrative set-up obtaining at the Centre and in the States, it would not be easy to bring about a synchronisation of functions and programmes with the organisations. Also, a strict functional classification will, unless followed by necessary administrative reorganisation of functions and responsibilities, give rise to problems of fund control and accountability.

*Need for functional grouping*

50. Irrespective of these considerations, it is doubtful whether a functional grouping of an ideal type is essential at this stage of our development. It is to be noted that there is no well established and widely accepted functional classification. Indeed, the functional classifications as adopted by the U.S., the U.K. and the U.N. Manual on Functional classification are materially at variance with each other. For example, 'defence' figures as a separate functional category in the U.S. classification. The same is included under the category 'Support of External Policy' in the U.K. while it is included in the category of 'General Services' in the U.N. manual. Health and welfare are shown as integral parts of 'Social Services' both in the U.N. Manual and in the U.K.; they are, however, treated as a distinct functional category in the U.S. In the same way, other functions of governments are treated differently. Thus, the pattern of functional classification, as may be evolved, will have to be necessarily conditioned by our requirements. Viewed from this angle, we already have a semi-functional classification of accounts and budgetary heads. In addition, there is a discernible function-cum-sectoral approach adopted for Plan purposes in the listing of heads of development. These two have served, no doubt, definite purposes so far. But the point to be considered is whether these classifications are adequate now. After careful consideration, the Working Group is of the opinion that the semi-functional classification system adopted for budget and accounts requires to be carried forward. For undertaking such a job of work, due attention has to be paid to the need of evolving a classification system that can serve as a basis not merely for budget and accounts but for the purposes of Plan as well. We have, however, not ventured, in view of the time factor, to undertake such classification ourselves. This classification would need to be carried out at an early stage and we would recommend that this may be undertaken.

51. Some other aspects of this question may, however, be dealt with here. As already stated, it is not easy to think in terms of a complete functional classification so as to get all expenditure under a given function or programme at one place in the accounts and budget. However, certain steps can be taken which, while not disturbing the existing patterns of classification and presentation, would help in giving more meaning to the existing heads of account. Already, the major heads of accounts have been broadly grouped under sections more or less on functional basis. Thus, for example, there are sections L2Dept.ofAR/66--13

like 'collection of taxes, duties and other principal revenues', 'Debt services', 'social and development services', etc. It is quite within the realm of feasibility to bring about minor adjustments in the scope of the sections so that they may correspond, as far as possible, to broad sectors or functional categories of the economy. This will also involve some rearrangements of the existing major heads with a view to putting them under the appropriate sections.

*Deficiencies in the existing account heads*

52. At present, there is, for instance, a section entitled 'Miscellaneous' under which we have such major heads as Famine Relief, Stationery and Printing, Opium and Forest. Apparently, there is nothing in common among these services so as to call for being grouped together. They require to be transferred to appropriate functional groups or sections. Similarly, under the section 'Contributions and Miscellaneous Adjustments', we have 'Payment of States', 'share of Union Excise Duties' and 'Grants-in-aid to State and Union Territory Governments'. These may, perhaps, be put under a separate section so that all devolutions of taxes and grants may be indicated at one place. Similarly, it would be advantageous to indicate all the devolutions, including grants to the Panchayats from the State Government, under a consolidated head. The changes suggested are, however, illustrative only. Similarly, it should also be possible to assign major heads for some important departments which at present do not have a major head assignment to them. For example, 'family planning' should deserve a separate major head to itself; so also fisheries, tourism, etc.

53. All this underscores the need for attention being paid to the existing major heads so that they could be modified in conformity with the overall purposes mentioned earlier and may also reflect some of the new functions of Government. As in the case of major heads, it would be necessary to consider the requirements and changes relating to the minor and subordinate heads too. At present, the minor heads and sub-heads thereunder have, over the years, grown in a somewhat complex and haphazard manner lacking both in objectivity and purposiveness. Some of them indicate an organisational basis, some are object-oriented, while others are scheme-oriented.

54. Some of the minor heads as organised now do not adequately fit into the changed conditions of today. With a view to considering

the possibility of changing the minor heads so as to bring them in conformity with the requirements in view, the Working Group endeavoured to study, in addition to the Central Department of Agriculture, the accounting arrangements of the Department of Agriculture of three State Governments as well. An analysis and review of some of these aspects was also submitted to the Study Team on Accounts and Audit. It was observed from the Demands of the Agriculture Department (Revenue) of the three States visited *i.e.*, Madras, Maharashtra and West Bengal, that there was not much of uniformity or rationale behind the classification of expenditures under the various schemes and activities. This is largely so probably because most of the minor heads have become outmoded and there has been no concerted attempt at reorganising them, keeping in view the needs of the current situation.

55. As mentioned earlier, the logic or reason behind the classification of schemes and activities is not very apparent to the uninitiated. In Maharashtra, for example, schemes for the multiplication and distribution of improved seeds are classified under the minor head 'Sub-ordinate and Expert Staff'. The same minor head covers such schemes as composting, trial-cum-demonstration farms, horticultural development, package programme for increasing groundnut, etc. Similarly, the minor head 'Agricultural Experiments and Research' at present embraces such diverse activities as the improvement of vegetables, the development of fruit production, the production and distribution of nuclear seeds of improved strains of food grain crops, plant protection schemes, intensive agricultural district programme, intensive cultivation of cotton etc. Again, in Madras the programme for multiplication and distribution of improved seeds is booked under 'agricultural demonstrations and propaganda including public exhibitions and fairs'. Likewise, schemes for intensive agricultural district programme, sugarcane development, development of fruit production, plant protection and control of pests etc. also figure under the same minor head. The minor head 'Agricultural Engineering' covers certain programmes which essentially belong to minor irrigation such as the installation of river pumping sets, sinking of artesian wells, etc. These illustrations indicate a certain lack of purposiveness in classifying expenditure and would also support the view that the existing minor heads are not fully adequate as instruments of financial data presentation to aid management in the control of their operations.

56. Yet another feature that was observed related to the booking of all Plan expenditure under a distinct minor head labelled 'development schemes' in Madras and West Bengal. There are, however, certain differences in the scope and ambit of this head in the two States. While in Madras, this head accommodates all the current plan expenditure, in West Bengal the head covers not only the expenditure under the current Plan but also the committed expenditure of earlier Plans. Thus in Madras, the moment a scheme ceases to be in the current Plan, the subsequent expenditure thereon gets booked under one or the other of the prescribed minor heads, whereas such expenditure continues to be exhibited under 'development schemes' for some years more in West Bengal. There is another point of difference. In Madras, under this minor head, the regular minor heads appear as group heads under which a number of sub-heads are opened to accommodate various schemes, etc. The result is a somewhat diffused conglomeration of a number of schemes. But in West Bengal, the schemes under this minor head are arranged according to groupings under various heads of development prescribed by the Planning Commission. The exhibition of Plan expenditure appears thus to be somewhat better in West Bengal. The Working Group is, however, of the opinion that an activity has to be viewed as a whole, no matter whether, a part of it is Plan or non-Plan and, therefore, both the Plan and non-Plan expenditure should be shown under the same minor head.

#### *Proposed scheme of accounting changes*

57. The Working Group feels that with suitable changes and modifications, the accounting system could be buttressed to serve the needs of administration. This would also be in keeping with the requirements of performance budgeting. The modified system could initially be applied in respect of one or two departments, say, the Deptt. of Agriculture, and in the light of the experience so gained, it may be considered for extended application to other major nation-building activities. The Working Group is, however, conscious of the need to keep the modifications and changes, as far as possible, to the minimum. With this end in view, some members of the Working Group held intensive discussions with the accounts, finance and budget officials of the Department of Agriculture as also the Accountants General in the three States. In consultation with them and in the light of the requirements of the Department of Agriculture, a list of proposed

minor heads under 31-Agriculture has been drawn up and may be seen at Appendix II-A to this report. Before these new minor heads were evolved, both the departmental officials and the Accountant General satisfied themselves that every item of expenditure or every scheme at present appearing under 31-Agriculture could be suitably accommodated under the relevant minor heads now proposed. There was general agreement on, and appreciation of, the proposed scheme of minor heads in view of the existing inconsistencies and deficiencies. A statement is added at Appendix II-B to bring out the changes and variations between the existing and proposed minor heads. It is hoped that these appendices read together will give a fair idea of the proposed changes.

58. The studies of the Working Group have been, for various compulsions, particularly the time factor, limited to the Department of Agriculture of the States visited and that too to the main Revenue Demand only. This Group envisages that these studies would be carried further with respect to the other revenue Demands as well as capital budget including Loans and Advances of this Department. Similarly, such studies should be extended to other departments as well. The principles of classification should, it is suggested, be broadly the same as are enunciated here. The nomenclature of minor heads for similar programmes or activities should be the same, no matter under what major head the expenditure thereunder appears.

59. (i) Essentially, our approach envisages that one major head may be assigned to one department. The minor heads under a major head should broadly correspond to the main programmes of the department. They should be comprehensive and cover not only the present but future programmes also. The minor heads can be broken down into group heads, sub-group heads and sub-heads of account. In the case of the States, under a minor head (related to a programme), group heads can be opened reflecting activities *i.e.* collections of homogeneous items of works or scheme. These group heads can be divided into sub-group heads to correspond to individual schemes or units. The objects of expenditure like the establishment charges, other charges, etc. would, as at present, form the primary units of appropriation. *i.e.* sub-heads of account. In the Centre, wherever organisations can be identified with major programmes (in view of the system of attached and subordinate offices) minor variations below the level of minor heads may be called for. For example, the directorates or organisations may form group-heads under the minor heads. Sub-group heads

may then accommodate the various activities under the directorate or organisation. These may be as broad-based as possible. Both in the Centre and in the States, the minor heads will remain common as at present.

(ii) Another feature of the proposed scheme is that in respect of a programme represented by a minor head, the total expenditure, plan as well as non-plan, will be available at one place as illustrated in Appendix III-A. At present, no uniform practice is followed in this regard. In the Centre, for example, Plan expenditure is indicated separately in an annexure to the Demands for Grants. In a few States like Madras and West Bengal, however, the Plan expenditure is shown as a distinct minor head. There are other variants of the system of exhibiting Plan expenditure in the States. As mentioned earlier, the Working Group is of the opinion that it is desirable to show both the Plan and non-plan expenditure at one place under each minor head in the Demands for Grants in the Centre as well as the States for purposes of uniformity and comparative study of performance.

60. It would, however, be seen that although, under the above scheme, the expenditure on schemes and activities will be available in its relevant place, the total expenditure under a given programme or activity for the government as a whole will not be available. This, as noted by us earlier, is primarily due to the fact that more than one agency or organisation controlled by different departments is concerned with the execution of the schemes with the result that the expenditure incurred by each such department or agency is reflected in its own budget and under its relevant heads of account. In the opinion of this working group, this need not be regarded as a serious lacuna so long as the expenditure under a given programme or activity is booked against the appropriate minor heads having the same nomenclature under the relevant major heads of account. Thus, for example, if minor irrigation schemes are carried out by the Cooperative Department also the expenditure thereon may be booked below 34-Cooperation and under 31-Agriculture. The overall consolidated position can be given in a suitable tables at the beginning of the budget document. Such a comprehensive table covering the same programmes activities under the various departments can bring together at one place the total expenditure under a given programme or activity whatever may be the departments concerned. A useful write-up may accompany such a financial statement to bring out the overall physical aspects of

each programme. As already mentioned, a reorganisation of the accounting system on the lines indicated above would, apart from providing the much needed rapport, greatly facilitate the formulation review, appraisal and evaluation of programmes and activities.

61. Another aspect that merits mention here is the basis of accounting. In our set-up, accounting is on a cash basis. It is often contended that the adoption of an accrual system is necessary under performance budgeting. We have already referred to this aspect and said that accrual system is not a pre-requisite to the adoption of performance budgeting. This is an area of refinement which may well wait till enough experience has been gained of the working of performance budgeting. For a major part of the Governmental transactions, cash basis can very well form the basis for the adoption of performance budgeting.

*Linking of heads of development under the Plan with budget and account heads*

62. (i) It may be mentioned in this context that at present, there is a lack of correspondence between the heads of development followed under the Plan and the account heads followed in the budgets. The problem of achieving a satisfactory link between these two sets of classification has been engaging the attention of the Ministry of Finance, the Planning Commission and the Comptroller and Auditor General for quite some time now. As more than one agency or department is often in charge of the execution of schemes under a programme, the expenditure thereon appears dispersed under several major and minor heads in the budget and accounts. As a result, it has been found rather difficult to identify Plan schemes in the budget. As stated already, the procedure followed in exhibition of Plan expenditure also varies from State to State. The point has assumed importance in view of the recent decision to make the final adjustment of central assistance to States on the basis of audited figures of expenditure under the heads of development.

(ii) The Working Group has given careful consideration to this aspects of Plan-budget-integration and is of the opinion that the problem can be successfully tackled only if changes both in the heads of account as discussed earlier, and the heads of development and grouping of schemes thereunder are brought about. The problem cannot be solved by a mere change in the accounts heads. The Working Group

considers that the pattern of heads of development also would require to be carefully gone into with a view to examining the schemes or groups of schemes at present put under each head of development so that they may be rationally grouped together and arranged under meaningful categories. In this manner, the heads of development need to be recast so as to reflect collections of homogeneous groups of schemes. This may be done in such a manner that the heads of development and the groupings thereunder may correspond to the major or minor heads of account as proposed to be revised. In this connection the Working Group would like to point out that the new heads proposed depict the programmes/activities of a department or organisation. The heads of development have also been evolved to reflect major programmes or activities. Therefore, to the extent the minor heads are changed to correspond to activities, corresponding changes must necessarily be made in the heads of development also so that these may be properly correlated. It is, therefore, recommended that, as far as possible, the proposed major and minor heads should be considered for adoption for Plan purposes also. Rationalisation of the minor heads to reflect the programmes of the departments, modifications and re-arrangements of major heads to correspond to departments and organisations as discussed earlier, a re-grouping of major heads under appropriate functional heads and a meaningful recasting of heads of development and groups of schemes thereunder to correspond to the new pattern of major and minor heads should eventually provide the base for a rapport between the Plan and the budget.

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## CHAPTER VI

### AUDIT AND LEGISLATIVE REVIEW

#### *Performance audit*

63. One of the consequences of performance budgeting is the creation of a better framework for more effective audit. Audit, at present, is confined to ensuring that the expenditure incurred conforms to the relevant provisions of the Act, Constitution and of the Laws made thereunder, that the expenditure is in accordance with the financial rules and regulations framed by competent authority, that there is a sanction accorded by competent authority authorising the expenditure, that there is a provision of funds to meet a given expenditure duly authorised by a competent authority and that the expenditures shown as having been disbursed were legally available for and applicable to the services/purposes to which they have been applied or charged. It has also to be ensured in audit that the expenditure incurred is with due regard to the general principles of financial propriety.

64. In the context of the large scale activities of Government and the accent on planned economic development, there has been a large increase in the dimensions and complexities of public expenditure. In the present-day conditions, therefore, it is not enough that audit is conducted merely to ensure legality, regularity or propriety of individual transactions. It has also to ensure that the expenditure results in achieving the performance expected from it and that it has been incurred efficiently and economically.

65. The Comptroller & Auditor General has been quite aware of the importance of such an efficiency or performance audit apart from audit of the conventional type. Several measures have been, we understand, introduced to strengthen such an audit. Performance budgeting facilitates the task of such an efficiency-cum-performance audit and makes it more purposeful. Besides ensuring that the legal requirements have been complied with, performance budgeting provides audit with opportunities to evaluate how well and how efficiently the executive agency or the management had performed its assigned responsibilities. Through a classification of governmental operations in terms of activities and programmes and the correlation of financial and physical aspects of every activity duly supported by

work-load indications, targeted programmes and physical accomplishments, audit is enabled to conduct a systematic review towards the evaluation of executive performance.

*Parliamentary scrutiny of budget requests*

66. As indicated earlier, performance budget would facilitate a better scrutiny and understanding by the Legislature. Some of the deficiencies of our conventional budgets have been referred to in Chapter II. As stated therein, though improvements have been made from time to time towards making the budget more informative by adding 'notes on important schemes' etc., a comprehensive picture of the activities is not available at one place in the budget. Relevant information has to be collected from different places such as the explanatory Memorandum, notes on important schemes and other data furnished in the different documents. It is obvious that a budgetary presentation, giving at one place all relevant aspects of the programmes and activities of a department, will be more helpful to the Legislature for purposes of scrutiny and approval. The merit of performance budgeting lies in facilitating a better review and appraisal of the performance of a department. Thus it strengthens rather than weakens the legislative control.

*Post budget review by Parliament*

67. Under the constitution, the Comptroller & Auditor General submits his reports relating to the accounts to the President/Governor who causes them to be laid before the Parliament/Legislature. The accounts submitted to the Legislatures along with the audit reports embrace, besides the appropriation accounts, the whole of the accounts of the Union/States including the accounts of the receipts and of all transactions, relating to debt and remittance heads. These accounts bring out the sum total of transactions and the actuals against budgeted amounts.

68. The post budget review by Parliament is facilitated by the Audit Reports of the Comptroller & Auditor General who is also actively associated with the proceedings of the Public Accounts Committee which scrutinises his reports. It is through the reports of the Comptroller and Auditor General and their subsequent examination by the Public Accounts Committee that the Legislature exercises a review of the expenditures incurred by the Executive out of the

moneys voted by them. It is obvious that when the budget is framed and voted according to the activities and programmes with the promise of a certain performance or accomplishment for the money asked for, the Legislature is able to judge better the actual performance of the Executive through the reports which bring out how far the Executive has been able to achieve the performance promised. So at the time of voting the subsequent year's budget requests the legislator becomes better equipped to analyse and ask questions regarding programme and expenditures. The members of the Legislature are not only interested in ensuring that the appropriations voted are not exceeded; they are also interested in reviewing the performance of the administrative agencies in their various fields. This will be facilitated by performance budgeting and by a review of the operations through appropriation accounts, audit reports, etc.

## *CHAPTER VII*

### **CONCLUSIONS AND RECOMMENDATIONS**

69. Our budgetary system has not adequately responded to the demands made on it by the greatly increasing dimensions and complexities of governmental operations as a result of development planning. Having regard to the objectives of a budget and the need for reforms in the budgetary system so as to make it an effective instrument for the implementation of development plans, the technique of performance budgeting provides a method of budget formulation, presentation and execution which has definite potential advantages. We, therefore, commend its adoption. However, in view of the circumstances obtaining in our country there will be certain problems of adaptation. Among these, mention may be made of the problems of accounting changes, the strengthening of administrative machinery, the improvements of methods and practices of financial management and the training and equipping of the various officials concerned. Having regard to these and the changes involved, the introduction of performance budgeting should be adapted to our conditions and requirements.

70. The Working Group does not envisage performance budgeting to be only an additional or supplementary document to the existing budget. As explained in para 28, the benefits of the new concept would not be realised if it does not go to the roots and remedy some of the deficiencies in the existing procedures and practices. This will happen only if the new technique and system forms an integral part of the budgetary structure. This, however, will not mean that the existing budgetary documents would be replaced by an entirely new set of documents. On the contrary, the existing documents would, in the main, continue, with such modifications as are indicated in Appendix III B. Under the approach as envisaged by us, the budget document will have two main constituents, one the Performance Budget proper and the other the Demands for Grants. The latter document as obtaining now will undergo some changes. There would be, for example, modifications corresponding to the changes in the major and minor heads of account as also in the primary units of appro-

priation. These modifications would help a better presentation of the performance aspects of government spending.

71. The following are some of the important practical steps to be taken in connection with the introduction of this technique :

(a) The overall responsibility in the matter of introduction of the new technique should vest in the Finance Ministry and they should be assigned the duty of planning and carrying out the process of conversion to the new system. The Unit working at present under the Committee on Plan Projects (Planning Commission) could provide the nucleus for building up a well-equipped organisation for this purpose.

(b) The important points to be considered are the choice of the departments or organisations where performance budgeting should be introduced first, their timing, the manner in which it should be phased and the extent of refinements and adaptations to be made. For reasons already explained and having regard to the limitations of the institutional framework obtaining in our country, the introduction of performance budgeting should, in our opinion, be an evolutionary process to be developed, refined and extended over a number of years. In such a process of phased application, priority should be given to departments or organisations directly involved in development programmes and activities. Or, alternatively, preference may be given to departments and organisations that spend the largest portion of the budget. Yet a third course open is to make conversion initially in certain organisations of each department and then gradually to extend the system to the whole department. We feel that the best course would be to take up first those departments and organisations involved in development programmes, which account for a sizeable part of development expenditure in the Plan and the budget. The introduction of the new technique may be initially confined to two or three departments. To begin with, we recommend that performance budgeting may be introduced in one department at the Centre which deals exclusively with a Central subject, e.g. Post and Telegraphs Department, and in another department which is operating both at the Centre and in the States. In the latter case, it should be introduced both at the Centre and in the States. In the context of the overwhelming importance of agricultural programmes in the

country, we would suggest that the Departments of Agriculture at the Centre and in the States might, for example, be considered in this connection. The experience which will be gained in the working of the new technique will be valuable in considering its extension to other organisations and departments. It will be useful to undertake a review of the progress made two to three years after the introduction of the experiment to facilitate such consideration.

(c) Once the decision to introduce performance budgeting in selected departments or organisations is taken, steps should be taken to identify and analyse the objectives and functions of these departments or organisations on the lines required under performance budgeting and to develop descriptive accounts of the programmes and activities to meet presentation needs. This may preferably be done by a team of officers drawn, as far as possible, from the Ministry of Finance, the Administrative Ministries/Departments concerned and the Management and Administration Division of the Planning Commission. In so far as the accounting changes are concerned, these will need to be considered in close consultation with the Comptroller and Auditor General.

(d) In respect of those departments where conversion should initially take place, their administrative and financial management system covering the planning, programming, budgeting, reporting and evaluation should be strengthened with a view to adapting these to the requirements of performance budgeting.

(e) As a part of the training and education programme, the Ministry of Finance may arrange to prepare a comprehensive manual on performance budgeting covering the various issues and containing instructions of a practical nature for the guidance of those who will be connected with the budgetary process as also the various other officers and staff at the Centre and in the States.

(f) The installation of a performance budget requires a minimum basis for review of the financial requirements under programmes and activities in terms of appropriate workload data and other indices. Therefore, in respect of the selected departments, studies should be conducted with a view to determining how far their activities are capable of being quantified. For this purpose, the most appropriate methods of developing workload indicators, work measurement units,

unit costs and other performance norms should be evolved by the joint efforts of the representatives of the departments concerned and the Ministry of Finance, etc.

*New Delhi*

*April 18, 1967.*

Sd.

N. S. Pandey

J. C. Luther

A. G. Krishnan

E. R. K. Menon

S. S. Viswanathan

A. Premchand



*APPENDIX I*

**CASE STUDY—A  
DEPARTMENT OF LABOUR & EMPLOYMENT**

**PART I**

EXTRACTS  
FROM  
THE EXISTING BUDGET  
OF THE  
DEPARTMENT OF LABOUR AND EMPLOYMENT  
(SECRETARIAT AND DIRECTORATE GENERAL  
OF EMPLOYMENT & TRAINING)



### *INTRODUCTORY NOTE*

The Ministry of Labour, Employment and Rehabilitation was constituted on 24th January, 1966, by amalgamation of the former Ministry of Labour and Employment and the Ministry of Rehabilitation. The reconstituted Ministry is organised in two departments, one deals with the work relating to the Labour and Employment and the other with Rehabilitation work. There is also a Pay and Accounts Officer attached to the Department of Rehabilitation.

2. Six Demands are presented on behalf of the Ministry of Labour, Employment and Rehabilitation, five for expenditure met from Revenue and one for the Capital outlay.

3. The Ministry proper and the Chief Inspector of Mines each have a Demand. In addition there is a demand for the Expenditure relating to labour and employment measures including provision for Labour Tribunals.....Directorate General of Employment and Training and its organisation, National Employment Service and Training etc.....

X X X X X X

6. The total expenditure under the control of this Ministry is given below :

(In thousands of Rupees)

	Budget	Estimate	
	1966-67		
70—Ministry of Labour, Employment & Rehabilitation	X	X	X
72—Labour and Employment	X	X	X
<b>TOTAL</b>			

7. Notes on Demands for Grants, a list of important items of non-Plan expenditure costing Rupees five lakhs and above included in the Budget for 1966-67 and notes on the schemes under the Ministry's control are given at the end of the volume.

**DEMAND NO. 70**

**MINISTRY OF LABOUR, EMPLOYMENT AND REHABILITATION**

- I. Estimate of the amount required in the year ending 31st March, 1967 to defray the charges in respect of the Ministry of Labour, Employment and Rehabilitation.

*Voted: Seventy Lakhs and Seventy-two Thousand Rupees*

- II. Sub-Heads under which this Grant will be accounted for on behalf of the Ministry of Labour, Employment and Rehabilitation.

	Actuals 1964-65	Budget Estimates 1965-66	Revised Estimates 1965-66	Budget Estimates 1966-67
	Rs.	Rs.	Rs.	Rs.
<b>Major Head "19"</b>				
A Department of Labour and Employment :--				
A1—Secretariat . . . . .	..	..	..	..
A1 (1)—Pay of officers . . . . .	..	..	..	..
A1 (2)—Pay of Establishments . . . . .	..	..	..	..
A1 (2)—Allowances, Honoraria, etc. . . . .	..	..	..	..
A1 (4)—Other Charges . . . . .	..	..	..	..
A1 (5)—Cost of Experts . . . . .	..	..	..	..
A1 (6)—Lump provision for in- crease in Dearness Allow- ance. . . . .	..	..	..	..
TOTAL—Secretariat . . . . .	..	..	..	..
TOTAL—Dept. of Labour and Employment . . . . .	..	..	..	..

### SCHEDULE I

This Demand includes Provision for Plan Expenditure on the following items :—

	Actuals 1965-66	Budget Estimates 1965-66	Revised Estimates 1965-66	Budget Estimates 1966-67
	Rs.	Rs.	Rs.	Rs.
<b>Major Head "19"</b>				
A—Department of Labour and Employment :				
A1—Secretariat . . . . .				
A1 (1)—Pay of Officers . . . . .				
A1 (2)—Pay of Establishments . . . . .				
A1 (3)—Allowances, Honoraria, etc. . . . .				
A1 (4)—Other Charges . . . . .				
TOTAL—Department of Labour and Employment . . . . .				

### SCHEDULE II

Details of provision made under "Pay of Officers" and "Pay of Establishments".

Numbers		Budget Estimates 1966-67	Budget Estimates 1966-67
1965-66	1966-67		
<b>Pay of Officers</b>			
2	2	Secretary . . . . .	. . . . .
—	2	Additional Secretaries . . . . .	. . . . .
5	4	Joint Secretaries etc., etc.	. . . . .

**DEMAND NO. 72**  
**LABOUR AND EMPLOYMENT**

1. Estimate of the amount required in the year ending 31st March, 1967 to defray the charges in respect of Labour and Employment.

**Voted : Twelve Crores, Seventy-two lakhs and Nineteen thousand Rupees.**

**Charged : Ten thousand rupees.**

- II. Sub-Heads under which this Grant will be accounted for on behalf of the Ministry of Labour, Employment and Rehabilitation.

**Major Head "38"**

	Actuals 1964-65	Budget Estimate 1965-66	Revised Estimate 1965-66	Budget Estimate 1966-67
K—Employment and Training :	Rs.	Rs.	Rs.	Rs.
K.1—Director General of Employment and Training . . . . .				
K.1(1) Pay of officers . . . . .				
K.1(2) Pay of Establishments . . . . .				
K.1(3) Allowances, Honoraria, etc . . . . .				
K.1(4) Other Charges . . . . .				
K.1(5) Local cost of foreign experts . . . . .				
TOTAL—Director General, etc. . . . .				
K.2—Central Training Institute for Instructors :				
K.2(1) Pay of officers . . . . .				
K.2(1) Pay of Establishments . . . . .				
K.2(3) Allowances, Honoraria, etc . . . . .				
K.2(4) Other charges . . . . .				
K.2(5) Purchase of equipment . . . . .				
K.2(6) Trade Testing . . . . .				
K.2(7) Material and equipment under the Special Project Fund of the U.N.O. . . . .				
K.2(7)(1) Incidental charges . . . . .				
K.2(8) Equipment under I.I.O. AID				

	Actuals 1964-65	Budget Estimate 1965-66	Revised Estimate 1965-66	Budget Estimate 1966-67
	Rs.	Rs.	Rs.	Rs.
K.2(8)(1) Incidental Charges				
K.2(9) Material and equipment under T.C.A. programme				
K.2(9)(1) Incidental Charges				
K.2(10) Stipends				
K.2(11) Preliminary expenditure in connection with the Fourth Plan				
K.2(12) Equipment from United States Agency of International Development				
K.2(12)(1) Incidental Charges				
TOTAL—Central Training Institute				
K.3—National Council for Training Vocational Trades				
K.4—National Employment Service and Training				
K.4(1) Purchase of reserve stock				
K.4(2) Mine Mechanisation Training Institute				
K.4(3) Inspection Staff of Mine Mechanisation Institute				
TOTAL—National Employment etc.				
K.5—Apprenticeship Training Scheme				
K.5(1) Pay of officers				
K.5(2) Pay of establishments				
K.5(3) Allowances, Honoraria, etc.				
K.5(4) Other Charges				
K.5(5) General Apprenticeship Council				
TOTAL—Apprenticeship, etc.				
K.6—Area manpower studies				
K.7—Central Staff Training and Research Institute				
K.8—Central Institute for Research and Training in Employment Service				
K.8(1) Pay of officers				
K.8(2) Pay of establishments				

	Actuals 1964-65	Budget Estimate 1965-66	Revised Estimate 1965-66	Budget Estimate 1966-67
	Rs.	Rs.	Rs.	Rs.
K.8(3) Allowances, Honoraria, etc.				
K.8(4) Other Charges				
<b>TOTAL--Institute for Research etc.</b>				
K.9--Special Employment Exchange for displaced persons				
K.9(1) Pay of officers				
K.9(2) Pay of establishments				
K.9(3) Allowances, Honoraria, etc.				
K.9(4) Other Charges				
<b>TOTAL--Special Employment Ex- change</b>				
K.10--Employment and Training Vocational Rehabilitation Centres				
K.11--Regional Directorates of Training				
<b>TOTAL--Employment and Training</b>				

**SCHEDULE I**

This Demand includes provision for Plan Expenditure on the following items :

**Major Head "38"**

	Actuals 1965-66	Budget Estimates 1965-66	Revised Estimates 1965-66	Budget Estimates 1966-67
	Rs.	Rs.	Rs.	Rs.
K.—Employment and Training :				
K.1—Director General of Employment and Training . . . . .				
K.1(1) Pay of officers . . . . .				
K.1(2) Pay of establishment . . . . .				
K.1(3) Allowances, Honoraria etc. . . . .				
K.1(5) Local cost of foreign experts . . . . .				
TOTAL—Director General of Employment and Training . . . . .				
K.2—Central Training Institutes for instructors . . . . .				
K.2(1) Pay of Officers . . . . .				
K.2(2) Pay of establishment . . . . .				
K.2(3) Allowances, Honoraria, etc. . . . .				
K.2(4) Other Charges . . . . .				
K.2(5) Purchase of equipment . . . . .				
K.2(6) Trade testing . . . . .				
K.2(7) Material and equipment under the Special Project Fund of the U.N.O. . . . .				
K.2(7)(1) Incidental charges . . . . .				
K.2(8) Equipment under I.L.O. AID : . . . . .				
K.2(8) (1) Incidental charges . . . . .				
K.2(9) Material and equipment under T.C.A. programme . . . . .				
K.2(9)(1) Incidental charges . . . . .				
K.2(10) Stipends . . . . .				
K.2(11) Preliminary expenditure in connection with Fourth Plan . . . . .				

	Actuals 1964-65	Budget Estimate 1965-66	Revised Estimate 1965-66	Budget Estimate 1966-67
	Rs.	Rs.	Rs.	Rs.
K.2(12) Equipment from United Agency for International Development . . . . .				
K.2(12)(1) Incidental charges . . . . .				
<b>TOTAL--Training Institutes . . . . .</b>				
K.4—National Employment Service and Training . . . . .				
K.9—Special Employment Exchange for displaced persons . . . . .				
K. 9(1) Pay of officers . . . . .				
K. 9(2) Pay of establishments . . . . .				
K. 9(3) Allowances, Honoraria, etc. . . . .				
K. 9(4) Other Charges . . . . .				
<b>TOTAL—Special Employment Exchange . . . . .</b>				
K. 10—Employment and Training Vocational Rehabilitation Centres . . . . .				
K. 11—Regional Directorates of Training . . . . .				
<b>TOTAL—Employment and Training . . . . .</b>				
K. 4(2) Mine Mechanisation Training Institute . . . . .				
K. 4(3) Inspection of staff of Mine Mechanisation Institute . . . . .				
<b>TOTAL—National Staff of Mine Mechanisation Institute . . . . .</b>				
K. 5—Apprenticeship Training Scheme . . . . .				
K. 5(1) Pay of officers . . . . .				
K. 5(2) Pay of establishments . . . . .				
K. 5(3) Allowances, Honoraria, etc. . . . .				
K. 5(4) Other Charges . . . . .				
<b>TOTAL—Apprenticeship, etc. . . . .</b>				

	Actuals 1964-65	Budget Estimate 1965-66	Revised Estimate 1965-66	Budget Estimate 1966-67
	Rs.	Rs.	Rs.	Rs.
K. 6—Area manpower studies . . . . .				
K. 7—Central Staff Training and Research Institute . . . . .				
K. 8—Central Institute for Research and Training in Employment Service . . . . .				
K. 8(1) Pay of officers . . . . .				
K. 8(2) Pay of establishments . . . . .				
K. 8(3) Allowances, Honoraria, etc. . . . .				
K. 8(4) Other Charges . . . . .				
<b>TOTAL—Central Institute for Research and Training in Employment Service . . . . .</b>				
K. 9—Special Employment Exchange for displaced persons . . . . .				
K. 9(1) Pay of officers . . . . .				
K. 9 (2) Pay of establishments . . . . .				
K. 9(3) Allowances, Honoraria etc. . . . .				
K. 9(4) Other Charges . . . . .				
<b>TOTAL—Employment Exchanges . . . . .</b>				
K. 10—Employment and Training vocational Rehabilitation Centres . . . . .				
K. 11—Regional Directorate of Training . . . . .				
<b>TOTAL—Employment and Training . . . . .</b>				

**SCHEDULE II**

Details of provisions made under "Pay of officers"  
"Pay of establishment"

Number 1965-66	1966-67	Pay of Officers	Budget Estimate 1965-66	Budget Estimate 1966-67
			Rs.	Rs.
1	2	Director General and Joint Secretary etc., etc. . . . .		

## NOTES ON IMPORTANT SCHEMES

\* \* \* \*

### *Central Training Institutes for Instructors*

The Institutes are intended to improve the calibre of the Instructors/Staff of the Industrial Training Institutes and Institutions run by industrial establishments in the public and private sectors. At the end of the Second Plan, there were four institutes situated at Kanpur, New Delhi, Calcutta and Bombay, with a capacity of 686 seats. The recurring expenditure on these seats is outside the Third Plan.

The Third Plan envisaged opening of three new Institutes at Madras, Ludhiana and Hyderabad and expansion of the total capacity in all the Institutes to 1,932 seats. This target has been achieved. To strengthen the programme, foreign assistance has been secured in terms of equipment and experts from U.N. Special Fund and U.S.A.I.D. The monetary allotment under the Third Plan is Rs. 450 lakhs, which includes Rs. 296.40 lakhs on development of land and construction of buildings. The expenditure on construction of buildings is controlled by the Ministry of Works and Housing. The entire balance of monetary allotment of Rs. 153.60 is likely to be expended by 1965-66.

The Fourth Plan envisages expansion of the capacity in all the existing Institutes by 1,172 seats of which 660 seats have been sanctioned to be introduced from October, 1965 as advance action of Fourth Plan.

A provision of Rs. 65 lakhs under Plan and of Rs. 50 lakhs under Non-Plan has been made in the Budget Estimates for 1966-67 for purchase of equipment and machinery and for recurring expenditure, raw materials, etc.

## CRAFTSMEN TRAINING SCHEMES

These schemes are intended to train craftsmen in engineering and non-engineering trades. Prior to the commencement of the Third Plan there were 163 Industrial Training Institutes with a total seating

capacity of 42,685. The recurring expenditure on these schemes is outside the Third Plan.

The Third Plan envisaged the introduction of 58,846 seats by setting up 156 new Industrial Training Institutes and also by expanding the existing Institutes. By the end of October, 1965, 181 new Industrial Training Institutes have been set up. The total seating capacity of the 344 Industrial Training Institutes (including those existing at the end of Second Plan) was 1,04,398.



*APPENDIX I*

**CASE STUDY--A  
DEPARTMENT OF LABOUR & EMPLOYMENT  
PART II**

**PROPOSED BUDGET  
OF THE  
DEPARTMENT OF LABOUR & EMPLOYMENT  
UNDER  
PERFORMANCE BUDGETING**



## **CONTENTS**

### *A—Performance Budget*

- (i) Introductory notes.
  - (ii) Objectives and functions.
  - (iii) List of Organisations.
  - (iv) Statement showing Plan, budget outlays by important programmes/activities.
  - (v) Financial Requirements and Performance analysis of the Organisations.
    - (a) Secretariat.
    - (b) Directorate General of Employment & Training.
- etc.

### *B—Economic Classification of the Budget.*

### *C—Demands for Grants.*



#### *A—PERFORMANCE BUDGET*

##### *(i) Introductory Note*

The Ministry of Labour, Employment and Rehabilitation was constituted on the 24th January, 1966 by amalgamation of the former Ministry of Labour and Employment and Ministry of Rehabilitation. The reconstituted Ministry is organised in two departments, one dealing with the work relating to Labour and Employment and the other with the Rehabilitation work. The objectives of the Department of Labour and Employment are briefly given in section (ii).

2. A list of organisations under the Department of Labour and Employment is given in section (iii).

3. The major programmes and activities of the Deptt., the provision in the annual Plan and the corresponding provisions in the budget are given in section (iv). This is intended to facilitate Plan-budget correlation.

4. The financial requirements of the Department under each of the organizations referred to in section (iii) are indicated in terms of their programmes and activities, supported by detailed explanatory narrations, word-load factors, targets, accomplishments, etc. in section (v). In addition, the financial requirements in terms of the objects of expenditure constituting primary units of appropriation are also given under each organisation.

5. The total expenditure under the control of this Department is given below :

Demand	Budget Estimates 1966-67
Revenue .. .. .. .. .. .. .. .. ..	1645·157
Capital .. .. .. .. .. .. .. .. ..	33·630
*Grants to States/Union Territories .. .. .. .. .. .. .. ..	743·793
<b>TOTAL .. .. .. .. .. .. .. .. ..</b>	<b>2496·45</b>

\*Demands under Ministry of Finance.

##### *(ii) Objectives and Functions*

The Department of Labour and Employment is mainly concerned with subjects like welfare of labour, trade unions, industrial and

labour disputes, factory labour and unemployment. It is responsible for laying down policy for the whole of India in such matters while implementation of the policy is the responsibility of the State Government concerned, subject to the control and direction of the Central Government. In respect of the labour employed in railways, major ports, mines and oil fields appearing in the Union list, however, the Centre carries full responsibility. The Department also participates in international labour conferences and is concerned with the ratification of international labour conventions. It is also responsible for the employment and training of all categories of persons. The main programmes of the Department are as under :—

- Industrial Relations
- Wage Boards
- Labour Welfare
- Workers Education
- Research and Statistics
- Labour Conferences
- Employment and Training
- General Services :
  - General Administration
  - Contributions and Loans
  - Other Special items.

The outlay under the above heads for 66-67 is given in section (iv).

These programmes are carried out by the administrative organisations listed in section (iii).

(iii) *List of Organisations*

- (i) Secretariat
- (ii) Directorate General of Employment and Training, etc.  
etc.

(Note :—The various organisations, attached offices, etc. of the Department whose financial requirements are presented in the budget may be listed here).

## DEPARTMENT OF LABOUR AND EMPLOYMENT (CENTRE)

(iv) Programme and Activities; Plan and overall Budget provisions 1996-97

(Rs. in lakhs)

#### I. Industrial Relations:

VII. Employment & Training	1346.000	70.064	13.010	730.950	—	814.024	338.161	1152.185
VI. Labour Conferences	—	—	—	—	—	—	1.333	1.333
V. Research & Statistics	16.650	9.879	—	1.500	—	11.379	18.184	29.563
IV. Workers' Education	10.000	—	—	10.000	—	10.000	50.440	60.440
III. Labour Welfare	44.630	15.911	13.31	1.343	30.564	222.080	252.694	—
II. Wage Boards	—	—	—	—	—	9.942	9.942	—
Voted:	—	—	—	—	—	35.567	35.567	—
Charged:	—	—	—	—	—	100	100	—

	1	2	3	4	5	6	7	8	9	10
<b>VII. General Services</b>										
1. General Administration	..	—	—	—	—	—	—	—	—	25.342
2. Contributions & Loans	..	18,000	—	18,000	—	—	—	—	18,000	87,008
3. Special items ..	..	—	—	—	—	—	—	—	—	824,636
	1435.280	95,854	44,320	732,450	11,342	—	883,967	1612,483	2496,450	

NOTES:-

- (1) This statement covers only the activities of the Department of Labour and Employment at the Central. To get an overall picture under a programme/activity taking into account the expenditure incurred by other departments such as P.W.D. etc., a consolidated review should be given at the beginning of the main Performance Budget by the Central Budgeting Agency.
- (2) This does not take into account special area Demands controlled by the Home Ministry.
- (3) In cases where columns 2 and 8 do not tally, suitable explanation for the variations should be given with a view to bringing rapport between Plan and Budget.
- (4) This statement needs to be supported by a brief write up about the overall physical programmes and accomplishments under each programme indicated therein,

(v) *Financial Requirements and Performance Analysis of the Organisations*

					(in lakhs of Rs.)
(a) SECRETARIAT .. . . .					R.E. (65-66) 28.56
					B.E. (66-67) 32.69

*Policy formulation, executive direction and General Administration.*

The secretariat of the Department of labour and employment with Secretary to Government as its administrative head is mainly concerned with policy formulation and executive direction. In addition, the house keeping operations and general administration form part of the work of the Secretariat. The particulars of the number of officers and staff in the Dept. of Labour and Employment (Excluding D. G. E&T) are given below :—

Particulars	1964-65	1965-66	1966-67	Remarks
(a) No. of officers as on 31st March	88	74	76	
(b) No. of Staff as on 31st March	393	365	372	
(c) Total Secretariat (in lakhs of Rs.)	27.160	28.560	32.69	
(d) Total expenditure of the department .. . . .	10,29,925	12,65,480	1344.265	
(e) % of (a) to (d) .. . .	2.6	2.3	2.4	
<b>(b) DIRECTORATE GENERAL OF EMPLOYMENT AND TRAINING</b>				

**PROGRAMME AND PERFORMANCE**

*(A) Authority, Scope and Objectives*

The organisation of the Directorate General of Resettlement and Employment was created in 1945 for the resettlement of released war service personnel. The organisation was also entrusted with the task of administering the national employment service and the training of craftsmen and instructors to meet the growing demand for craftsmen in the country.

2. On the recommendation of the Training and Employment Service Organisation Committee (Shiva Rao Committee), the administration of the employment exchanges and training centres was transferred to States with effect from the 1st November, 1956. The Directorate General is now responsible for the laying down of policies, procedures, standards and for overall coordination of employment and training programmes throughout the country. On the recommendations of the Estimates Committee (88th Report 1959-60)

the organisation was redesignated as "Directorate General of Employment and Training".

In the matter of employment, the activities include the organisation of the national employment service for the purpose of placement, vocational guidance, employment counselling, collection and dissemination of information relating to the employment market on a continuing basis, evolving aptitude tests for admission of trainees to the Industrial Training Institutes and *ad hoc* manpower studies and surveys. The Training Schemes are concerned with the training and supply of craftsmen, crafts-instructors and apprentices. Special programmes are organised for the training of instructors required for both industry and institutes and also for giving part-time training to the existing workers. A start has also been made in the organisational programmes for the training of supervisors. In short, the objectives of the organisation can be stated as follows :—

1. Development of national employment services for fuller use of human resources.
2. Institution of training schemes to provide well trained skilled labour force for industries.

The work of the organisation and the activities under the above two programmes are indicated below :

1. *Employment* :

- (i) Policy formulation and executive direction;
- (ii) Employment Exchanges;
- (iii) Employment assistance to displaced persons;
- (iv) Employment Research and Training;
- (v) Employment assistance to workers for coalfields, Iron ore mines (Labour Dept., Gorakhpur);
- (vi) Employment studies;
- (vii) Vocational Rehabilitation Centres.

2. *Training* :

- (i) Policy formulation and executive direction;
- (ii) Training of craftsmen.

*Central Sector*

**Mines Mechanisation  
Training Institutes**

*State Sector*

- (a) Institutional (Industrial Training Institutes);
- (b) Inplant (Apprentices);
- (c) Training of craft Instructors
- (d) Training of apprentices

The expenditure on the headquarters organisation of the D.G.E.&T and the Central Institutes for training and employment is borne entirely by the Government of India who is responsible for policy, procedures, evaluation, training of employment officers and instructors and trade tests. The entire provision for these activities is made in the Central budget. The expenditure on Employment and Training Schemes in the States is shared between the Government of India and State Governments in the ratio of 60% to 40% respectively. The State Governments are responsible for day to day administration of field units. The Central share of this expenditure only is indicated in respect of such activities which are shared between the Central and State Governments.

The following are the financial requirements of the organisation for the year 1966-67.

**TABLE I**

*(B) Financial requirements for the year 1966-67*

(Figures in Rs.)

Programme by Activities	Actuals (64-65)	B.E. (65-66)	R.E. (1965-66)	B.E. (1966-67)
<b>1. Employment</b>				
(i) Policy formulation and executive direction		10,80,200	11,70,500	
(ii) Employment Exchanges		98,00,000	87,50,000	
(iii) Employment Research and Training .. ..		1,90,000	2,50,000	
(iv) Employment assistance to workers for coal-fields, Iron Ore mines (labour Dept. Gorakhpur) .. .. ..		5,73,500	5,88,400	

TABLE I—*Contd.*

Programme by Activities	Actuals (64-65)	B.E. (65-66)	R.E. (1965-66)	B.E. (1966-67)
(v) Employment assistance to displaced persons ..			69,200	89,900
(vi) Employment studies ..			..	5,000
(vii) Vocational Rehabilitation Centres ..			—	25,000
<b>2. Training</b>				
(i) Policy formulation and executive direction ..			11,01,000	11,40,400
(ii) Training of Craftsmen				
<i>Central Sector</i>				
Mines Mechanisation Training Institutes ..			8,62,900	7,59,000
<i>State Sector</i>				
(a) Institutional (Industrial Training Institutes) ..			9,83,45,000	8,93,45,000
(b) Inplant (Apprentices) —				
(iii) Training of Craft-instructors .. ..			80,87,100	1,15,17,900
(iv) Training of apprentices .. ..			2,59,100	2,76,400
<b>TOTAL</b> .. ..			<b>12,03,68,000</b>	<b>11,39,17,500</b>

NOTE : Actuals for 64-65 and B.E. for 65-66 could not be collected activity-wise for want of time.

Object Classification	R.E. (1965-66)		B.E. (1966-67)	
	No.	Cost	No.	Cost
1. Establishment charges ..				
(a) Officers .. ..	274	19,28,000	305	24,59,700
(b) Staff .. ..	1711	40,67,400	1775	49,81,200
2. Travel .. ..		2,52,000		2,48,500
3. Equipment .. ..		32,22,100		50,60,500
4. Stipends .. ..		1,13,000		1,09,200
5. Trade Testing .. ..		19,500		22,100
6. Other charges .. ..		24,02,300		29,11,800
7. Preliminary expenditure on Fourth Plan .. ..		2,18,700		—
8. Vocational Rehabilitation Centres .. ..		—		25,000
Grants to States .. ..		10,81,45,000		9,80,95,000
		12,03,68,000		11,39,17,500

Object Classification	R.E. (1965-66)		B.E. (1966-67)	
	No.	Cost	No.	Cost
<b>Source of Financing :</b>				
<b>Demand No. 72 :</b>				
Major head, "38"				
(Revenue) .. ..		1,22,28,000		1,58,22,500
<b>Demand No. 31</b>				
Major head "74" (Grants to States) .. ..		10,81,45,000		9,80,95,000
		12,03,68,000		11,39,17,500
Recoveries	R.E. (1965-66)		B.E. (1966-67)	
	No.	Cost	No.	Cost
(1) Recovery from the employers on account of Gorakhpur Labour		5,73,500		5,88,400
(2) Recovery from Vocational Rehabilitation Admn. of U.S. Government .. ..		—		25,000
<b>TOTAL</b> .. ..		<b>5,73,500</b>		<b>6,13,400</b>

**(C) Explanation of Financial Requirements**

**1. Employment**

R.E.	B.E.
(65-66)	(66-67)

(i) Policy Formulative and executive direction .. 10,80,200 11,70,500

The Directorate General is responsible for the laying down of policies, procedures, standards and for overall coordination of employment and training programmes throughout the country. The two main activities are Employment Service and Training. Some of the officers such as the Director of Employment Exchange, etc. are solely attending to the work of employment while officers such as the Director of Training, Deputy Directors of Training are attending the work relating to training. Apart from these officers who are either attending to the work relating to the employment services or training, the Director General and secretariat staff under him are attending to the work of both employment and training. The pay and allowances of officers of the last group has been divided between these two programmes, Employment and Training, in the ratio of 30.70. The portion relating to "Employment" is shown under this activity.

(ii) Employment Exchanges	R.E.	B.E.
	(1965-66)	(1966-67)
Central share of expenditure .. ..	98,00,000	87,50,000

The Fourth Plan envisages that the activities of manpower and employment schemes will be expanded and improved upon.

(a) These figures represent 60% share of the Central Government on all Employment Schemes including State Headquarters in States except Union Territory Governments and Union Territories and Schemes under Third Plan which are exclusively financed by State Governments during Fourth Plan period.

TABLE II

	1964-65 (As on 31st March 1965)	1965-66 (As on 31st March 1966)	1966-67 (As on 30th Sept. 1966)
<b>(a) Details of Exchanges</b>			
1. Number of employment exchanges	344	351	370
2. University Employment Information & Guidance Bureaus .. .. ..	29	37	37
3. Colliery Exchanges .. .. ..	7	7	7
4. Project Employment Exchanges .. .. ..	8	10	10
5. Special Employment .. .. ..	8	9	9
6. Employment Information and assistance Bureaus in Development Blocks	199	202	202
<b>(b) Performance of Exchanges</b>			
1. Registration .. .. .. ..	38,03,185	39,42,698	
2. Vacancies notified .. .. .. ..	9,23,296	9,30,306	
3. Submission .. .. .. ..	36,30,898	37,49,544	
4. Placements .. .. .. ..	5,51,927	5,69,148	
<b>(c) Working of Exchanges; Details of meetings Statewise and Exchangewise (held by the special Committees appointed in various States to enquire into complaints from Employment seekers and to examine the fairness of the waiting in exchanges).</b>			
			Information not available
<b>(d) Vocational Guidance and Employment Counselling</b>			
	1964-65	1965-66	1966-67
1. Number of sections established up to the end of the period .. .. ..	133	166	
2. Number of applicants guided in groups .. .. .. ..	4,30,802	4,59,530	

	1964-65	1965-66	1966-67
3. Number of applicants guided by individuals at the Employment Exchanges .. .. .. ..	14,457	18,194	
4. Number of applicants who were given occupational information ..	1,98,718	2,30,392	
<b>X</b> Information will be available at the close of the year 1966-67.			
(ii) <i>Employment Research and Training</i>	R.E. (1965-66)	B.E. (1966-67)	
	1,90,000	2,50,000	

The expenditure is in respect of the Central Institute for Research and Training in Employment Service. The increase in the provision is due to an increase in number of training courses and the number of officers to be trained. Some of the work load data is given below :

TABLE III

	1964-65	1965-66	1966-67
(a) Number of training courses .. ..	2	6	7
(b) Number of officers trained ..	49	100	168
(c) Number of studies in the field of research .. .. .. ..	N.A.	25	28
<b>(iv) Employment Assistance to Displaced persons</b>			
	R.E. (65-66)	B.E. (66-67)	
	69,200	89,900	

The expenditure is in respect of Employment Exchanges for displaced persons from East Pakistan.

TABLE IV

	65-66	66-67
1. Number of displaced persons registered	17,565	
2. Vacancies notified .. .. .. ..	Not notified for E.P. M's.	
3. Placements .. .. .. .. ..	1,099	
<b>(v) Employment assistance to workers for coalfields, Iron Ore Mines (Labour Depot, Gorakhpur)</b>		
	R.E. (65-66)	B.E. (66-67)
	5,73,500	5,88,400

The expenditure is in respect of Gorakhpur Labour Depot and is recovered from the employers.

TABLE V

	65-66	66-67
(a) Number of workers recruited for employment in coalfields etc. .. .. .. .. ..	13,754	
(b) Amount of money remitted to the families of workers .. .. .. .. ..	1,35,40,425	

(c) Number of patients treated at the Hospital ..	208	--
X—Information will be available only after the close of the year 1966-67.		
R.E.                    B.E.		
(vi) Employment studies .. .. .. ..	(65-66)	(66-67)

Number of studies made .. .. .. .. 4 6

The studies made during 1965-66 related to (i) Employment situation in India—a district-wise analysis, (ii) Integrated studies in Employment, Unemployment and Manpower Planning, (iii) occupational pattern and manpower requirements in fertiliser industry and (iv) report on occupational pattern of employees in the private sector

The studies proposed to be made during 1966-67 include *inter-alia* (i) Coverage of gaps in employment market information March-June 1966, (ii) Improvement of statistics on employment in construction industry.

(vii) Vocational Rehabilitation Centres	R.E.	B.E.
	(65-66)	(66-67)
		25,000

The provision is in respect of two centres which are proposed to be set up at Bombay and Hyderabad with the assistance of the Rehabilitation Administration (U.S. Government) to assist the rehabilitation of physically handicapped persons.

## 2. Training

(i) Policy formulation and executive direction .. .. .. ..	R.E.	B.E.
	(65-66)	(66-67)
	11,01,000	11,40,400

Please see the remarks under (i) policy formulation and executive direction under Employment. These figures represent the portion relating to Training.

(ii) Training of Craftsmen	R.E.	B.E.
	(65-66)	(66-67)

### Central Sector

(a) Mines Mechanisation Training institutes	8,62,900	7,59,000
State Sector		

(b) Central share of Expenditure on Craftsmen Training .. .. ..	9,83,45,000	8,93,45,000
---	-------------	-------------

The Third Five Year Plan envisaged a large increase in the demand for craftsmen. By the end of the Second Plan period there were 163 Industrial Training Institutes with 42,685 training seats. The recurring expenditure on these is outside the Third Plan.

The Third Plan envisaged the addition of 58,846 seats by setting up 156 new Industrial Training Institutes and also by expanding the existing institutes. On 31st March 1966 the total number of Industrial Training Institutes was 357 with a total training capacity of 1,13,622.

The Fourth Plan envisages opening of 112 new Industrial Training Institutes with a capacity of 28,000. The existing institutes will be expanded by 72,000 additional seats.

(The figures under R.E. 65-66 and B.E. 66-67 represent 60% share of the Central Government on all the training schemes including State Headquarters in States except Union Territory Governments, Union Territories and Model Training Institutes attached to Central Training Institutes for Instructors.)

The larger provision for the year 1965-66 is due to the fact that for the last year of the Third Plan, the arrears of assistance for the Third Plan was paid. Relevant work load data is given below :

TABLE VI

		1964-65 (At the end of March 1965)	1965-66 (At the end of March 1966)
(a) Number of industrial training institutes	.. ..	313	357
(b) Number of engineering trades	.. ..	29	29
(c) Number of non-engineering trades	.. ..	22	22
(d) Number of seats introduced in engineering trades		92,696	1,08,196
(e) Number of seats introduced in non-engineering trades	.. .. .. .. ..	5,090	5,426
(f) Total number of seats in engineering and non-engineering trades	.. .. .. .. ..	97,786	1,13,622
(g) Number of trainees passed out	.. .. ..	66,405	38,580

(There were two trade Tests in engineering trades in 1964-65)

Total number of craftsmen trained		1st Plan 28,757	2nd Plan 57,100	3rd Plan 1,83,288
Total Cost (Central+ State)	.. ..	Not available		
Cost per Craftsmen	.. ..	Excluding the charges on account of non recurring items of expenditure like the cost of buildings, tools, and equipment furniture, etc. this has been roughly worked out at Rs. 78·10 per month.		

(iii) <i>Training of Craft Instructor</i>	R.E.	B.E.
	(65-66)	(66-67)
	80,87,100	1,15,17,900

The Third Plan envisaged (a) the capacity of the four existing Central Training Institutes for craft-instructors would be raised from 586 to 1052 and (b) three more Central Training Institutes would be set up to train 7800 instructors as against 2000 in the Second Plan. The allocation in the Third Plan was Rs. 4.5 crores.

The Fourth Plan envisages expansion of the capacity in all the existing institutes by 1172 seats of which 660 seats have been sanctioned from October 1965 as advance action of the Fourth Plan. The allocation in the Fourth Plan is Rs. 4.37 crores.

The provision is for the seven Central Training Institutes for Instructors at Calcutta, Bombay, Madras Nagpur, Hyderabad, Ludhiana and New Delhi. The training is imparted in 16 engineering trades and 4 non-engineering trades in Building and Construction. The larger provision for the year 1966-67 is due to expansion of the capacity of the C.T.Is. The provision includes the expenditure on Model Training Institutes for the training of craftsmen attached to the Institutes at Calcutta, Hyderabad, Kanpur and Ludhiana. These figures do not include expenditure on construction of Central Training Institute buildings which are provided under the civil works budget.

Some of the workload information is given below :

TABLE VII

	64-65	65-66	66-67
(a) No. of training institutes for instructors .. .. .. ..	7	7	7
(b) Total capacity .. .. .. ..	1,948	2,380	2,608
(c) Number of Instructor trainees who passed out .. .. .. ..	2,342	1,561	
		(There were 2 trade tests)	
		1st Plan	2nd Plan
(d) Number of Craft Instructors trained	1,602	2,589	7,159
(e) Total passed out so far .. ..	11,223	--	--
	(31-3-66)		
(f) No. of Central/State Officers trained as promoters of Supervisory Development programmes .. ..	11	24	24

Information will be available after the close of the year.

	R.E. (65-66)	B.E. (66-67)
(iv) Training of apprentices .. .	2,59,100	2,76,400

The provision is in respect of expenditure incurred by the Central Government on the offices of the Central Deputy Apprenticeship Adviser (Regional). In addition, expenditure on the training of apprentices is incurred by the State Governments which is shared between the Central and the State Governments in the ratio of 60 : 40. The central share of expenditure is included under training of craftsmen. Separate figures for apprentices are not available.

Under the Apprenticeship Act 1961 which was enacted in December 1961, Training programmes in 14 designated trades commenced from 1st January 1963. Subsequently, 13 additional trades were designated and training in these started with effect from 1st January, 1964. Some Work-load data is given below

TABLE VIII

	64-65	65-66	66-67
(a) Number of trades in which training is given .. .	26	27	40 (upto Sept. 1966)
(b) Number of apprentices undergoing training at the end of the period ..	17,322	26,204	27,206 (30-6-66)
(c) Number of industries brought under the purview of the Act .. .	127	127	127
(d) Total number of Apprentices trained .. .			7,000
(e) Total cost so far .. .			Separate figures not available; expenditure combined, under craftsmen training schemes.

**B. ECONOMIC CLASSIFICATION OF THE BUDGET FOR THE YEAR 1966-67**

Current Account	Actuals 64-65	65-66 Revised	B.E. 66-67	Capital Account	Actuals 64-65	R.E. 65-66	B.E. 66-67
<b>1. Consumption Expenditure</b>				<b>1. Gross Fixed Capital Formation</b>			
Wages & Salaries . . .				@Buildings and other construction			
Commodities & Services . . .				(a) New Outlay . . .			
				(b) Renewals and Replacements			
<b>2. Transfer Payment : Grants</b>				<b>Machinery and Equipment</b>			
(a) To States and Union Territories . . .				(a) New Outlay . . .			
(b) To Local authorities . . .				(b) Renewals and Replacements			
(c) To others . . .							
<i>Other Current transfers</i>				<b>2. Increase in Inventories</b>			
(a) Subsidies . . .				<i>Works Stores</i>			
(b) Other . . .							
<b>TOTAL</b>	. . .	. . .	. . .				

@Other than those that are included under PWD budget.

## C. DEMANDS FOR GRANTS

DEMAND No. .... REVENUE

*Estimate of the amount required for the year ending 31st March, 1967  
to defray the charges in respect of Labour and Employment  
(Director General of Employment and Training).*

VOTED :

CHARGED

*Sub-heads under which this grant will be accounted for on behalf of the Dep't. of Labour and Employment.*

Description	Actuals (64-65)	B.E. (65-66)	R.E. (65-66)	B.E. (66-67)
38—Labour & Employment (Major head)				
Training (Minor head)				
<i>Directorate General of Employment and Training (Group head)</i>				
<i>Training of Apprentices (Sub-group head)</i>				
<i>Plan</i>				
Establishment charges				
Travel				
Other Charges (Sub-heads)				
<i>Non-Plan</i>				
Establishment charges				
Travel				
Other charges				
<i>Central Apprenticeship Council (Sub-heads)</i>				
NOTES :—1. The above is only illustrative with reference to one minor head and sub-group head thereunder.				
2. Under the technique of performance budgeting envisaged, there will be the main performance budget document in terms of organisations, activities, etc. in both financial and physical terms as illustrated				

in section (v). In addition, a separate part will be devoted to Demands for Grants as outlined above.

3. It would appear advantageous to have one Demand for one major head operated by one Department.
4. As at present, Capital Demands will be separately presented.

*APPENDIX I*

**CASE STUDY—B**

**DEPARTMENT OF AGRICULTURE (CENTRE)**

PROPOSED BUDGET  
OF THE  
DEPARTMENT OF AGRICULTURE  
UNDER  
PERFORMANCE BUDGETING



## **CONTENTS**

### **A—*Performance Budget***

- (i) Introductory note
- (ii) Objectives and Functions
- (iii) List of Organisations
- (iv) Statement showing Plan, budget outlays by important programmes/activities
- (v) Financial Requirements and performance analysis of the Organisations
  - (a) Secretariat
  - (b) Directorate of Extension and Training
  - (c) Exploratory Tube Wells Organisation
  - (d) Delhi Milk Scheme
  - etc.

• \* \*

### **B—*Economic Classification of the Budget***

### **C—*Demands for Grants***



## A—PERFORMANCE BUDGET—Dept. of Agriculture

### (i) Introductory Note

The Ministries of Food and Agriculture and Community Development and Cooperation were amalgamated on the 24th January 1966. The Department of Agriculture is one of the four departments of this reconstituted Ministry. Its objectives and functions are briefly given in section (ii).

2. A list of Directorates and Organisations under the Department of Agriculture is given in section (iii).

3. The major programmes and activities of the Department, the provision in the annual Plan and the corresponding provisions in the budget are given in section (iv). This is intended to facilitate Plan-budget correlation.

4. The financial requirements of the Department under each of the organisations referred to in section (iii) are indicated in terms of their programmes and activities, supported by detailed explanatory narrations, work-load factors, targets, accomplishments, etc. in section (v). In addition, the financial requirements in terms of the objects of expenditure—constituting primary units of appropriations, are also given under each organisation.

5. The total expenditure under the control of this Department, demand-wise, is given below :—

Demands	(Rs. in lakhs)						
	Budget Estimates 1966-67						
Revenue .. .. .. .. .. .. ..	2169·35						
Capital .. .. .. .. .. .. ..	10762·17						
*Grants to States/Union Territories .. .. .. .. .. .. ..	4588·94						
*Loans and Advances .. .. .. .. .. .. ..	16953·74						
TOTAL .. .. .. .. .. .. ..	34474·16						

\*Demands under Ministry of Finance.

NOTE.—This note is only indicative in nature and further amplification may be made depending on each situation

(ii) *Objectives and Functions*

The main objective of the Department of Agriculture is to co-ordinate the various programmes and activities under Agriculture and Allied Services throughout the country with a view to maximising agricultural production by providing the requisite material inputs, technical know-how, etc. In addition, its responsibilities include the sponsoring and conducting of a wide range of research activities.

These functions are carried out by the administrative organisations and directorates listed in section (iii).

(NOTE.—The write-up above on objectives and functions is only indicative. It requires elaboration.)

(iii) *List of Organisations*

1. Secretariat
2. Directorate of Extension and Training
3. Exploratory Tube Wells Organisation
4. Delhi Milk Scheme  
etc. etc. etc.

(NOTE.—The various organisations, directorates, attached offices, etc. of the Dept. whose financial requirements are presented in the budget may be listed here.)

DEPARTMENT OF AGRICULTURE (CENTRE)

*(iv) Programmes and Activities; Plan and Overall Budget Provisions (1966-67)*

(Rs. in lakhs)

Programmes/Activities	Budget Provision (Plan)							Budget Provision (Non-Plan)						
	Provi- sion in the Annual Plan	Direct Expendi- ture		Grants and Loans to States/U. Territories			Revenue Total of Grants & Loans (Cols. 5&6)	Total Plan Provi- sion in Budget ' 3+4+7	Revenue Capital Grants Loans Total of Grants & Loans (Cols. 5&6)	Capital & Loans	Grants & Loans Total of Grants & Loans (Cols. 5&6)	Total non- plan provi- sion (Cols. 9 to 11)	Total Budget Provi- sion (Cols. 8+12)	Re- marks
		Revenue	Capital	Grants	Loans	Total								
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	
<b>I. Agricultural Development</b>														
<i>(a) Direction and superintendence.</i>														
<i>(b) Agricultural Farms and Improved Seeds.</i>														
<i>(c) Extension &amp; Training.</i>														

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
(d) Intensive Agricultural Programmes.													
(e) Manures and Fertilisers.													
(f) Agricultural Education.													
(g) Agricultural Engineering.													
(h) Agricultural Experiments and Research.													
(i) Agricultural Marketing.													
(j) Minor Irrigation													
(k) Plant Protection and Quarantine.													
(l) Land Development													
(m) Development of commercial crops and Horticulture.													
(n) Colonisation Scheme													
(o) Miscellaneous													
													TOTAL AGRICULTURAL DEVELOPMENT.

**II. Animal Husbandry**

**III. Dairy Development  
and Milk Supply**

**IV. Forest**

**V. Fisheries**

**VI. Others**

**GRAND TOTAL ..**

NOTES.— 1. This statement covers only the activities of the Dept. of Agriculture at the Centre. To get an overall picture under a programme/activity taking into account the expenditures incurred by other departments such as P.W.D., etc., a consolidated review should be given at the beginning of the main Performance Budget by the Central Budgeting Agency.

2. This does not take into account special area Demands controlled by the Home Ministry.
3. The broad heads under Animal Husbandry, Dairy Development & Milk Supply, etc., may also be broken into main activities as has been done for the head I—Agricultural Development. This has not been done in this statement as detailed study in those fields was not conducted.
4. In cases where columns 2 and 8 do not tally, suitable explanations for the variations should be given with a view to bringing about rapport between Plan and Budget.
5. For want of necessary data and time, figures have not been filled in the statement.
6. This statement needs to be supported by a brief write-up about the overall physical programmes and accomplishments under each programme indicated therein.

(v) *Financial Requirements and Performance analysis of the organisations.*

*Secretariat : R.E. (65-66). B.E. (66-67)*

Rs. 56.14 lakhs      Rs. 54.23 lakhs

The Secretariat of the Department of Agriculture with the Secretary to Government as its administrative head is mainly concerned with evolving policy matters and giving executive directions. In addition, house keeping operations and general administration form part of the work of the Secretariat. The following table indicates the staff position :—

Particulars	Years		
	1964-65	1965-66	1966-67 (anticipated)
(a) No. of officers as on 31st March ..	139	146	132
(b) No. of staff as on 31st March ..	775	779	717
(c) Total Secretariat expenditure (in lakhs of rupees) .. ..	49.63	56.14 (R.E.)	54.23
(d) Total Revenue Expenditure of the Department (in lakhs of rupees) ..	1467.44	1432.71	2173.88
(e) % of (c) to (d) .. .. ..	8	3.9	2.5

### DIRECTORATE OF EXTENSION

#### (PROGRAMME & PERFORMANCE)

##### (A) *Authority, Scope and Objectives*

With the inauguration of the National Extension Services and Community Development Blocks in 1952 and the formation of the Ministry of Community Development at the Centre, the work of co-ordinating the training of Gramsevaks and Gramsevikas was entrusted to the Ministry of Food and Agriculture (now Ministry of Food, Agriculture, Community Development and Cooperation). For this purpose, a special Unit known as the Directorate of Extension and

Training was formed in 1955 which functions as a part of the Ministry (Department of Agriculture).

2. During the Second Plan Period, the problems of increasing agricultural production assumed greater importance. It was realised that more attention should be given to the application of the results of research to the cultivators' field. This required a systematic flow of scientific information from the research institutions under Agricultural Departments, Universities, National Institutes etc. to the Field Extension Agency under the development blocks. To ensure this, a close liaison was necessary between the Department of Agriculture and Community Development at the Centre and concerned Departments in the States. Thus, the responsibility for the dual role, *viz.* (a) establishing continuous coordination between the activities of the Department of Agriculture and Community Development and (b) serving as an executive arm of the Department of Agriculture in co-ordinating food production efforts, was entrusted to the Directorate of Extension Training.

3. The Directorate has been gradually strengthened to discharge effectively the increasing responsibilities. Apart from the Extension Training Unit, Farm Advisory Unit, Farm Information Unit and the Administrative Unit established earlier, a new Unit known as the Intensive Agricultural District Programme Unit was added during 1961. This Unit is now looking after all the intensive Agricultural Programmes such as IADP, IAAP and HVP. Another Unit called Agricultural Implements Unit was also added in February, 1963 by transferring the implements development work being done in different sections in the Directorate, the ICAR and the Ministry. As such, at present, the work of the Directorate is divided into the above mentioned 5 technical units which function under the control of the Extension Commissioner in the Ministry.

4. It is the function of the Technical Units to initiate, process, guide, supervise and assist the extension agency in the States in the implementation of various programmes and schemes. The officers of the Directorate keep liaison with the State Governments, maintain close contact with their counter-parts in the States and visit the States and districts frequently to guide the field officers in the implementation of the various programmes.

5. The financial requirements of the Directorate for the year 1966-67 are as follows :

(B) *Financial Requirements (66-67)*

TABLE I

Programmes/ Activities		B.E. 1966-67	R.E. 1966-67
(Rs. in lakhs)			
1. Intensive Agricultural Programmes	.. ..	19.87	45.77
2. Extension and Training:			
(a) Farm Advisory Services	.. ..	3.40	3.68
(b) Extension Education and Training	.. ..	11.82	12.36
(c) Farm Information & Publicity	.. ..	17.48	17.83
(d) General Administration	.. ..	10.30	11.37
3. Agricultural Engineering :			
Agricultural Implement's	.. ..	0.71	0.73
	TOTAL ..	63.58	91.74
<i>Add</i>			
4. Grants to States	.. ..	91.56	86.32
5. Loans to States	.. ..	6.00	42.61
	TOTAL ..	161.14	220.67
<i>Objects of Expenditure :</i>			
1. Establishment charges	.. ..	26.70	26.63
2. Travel ..	.. ..	2.03	2.89
3. Materials & Equipment	.. ..	5.03	13.17
4. Other charges	.. ..	29.82	49.05
5. Grants to States	.. ..	91.56	86.32
6. Loans to States	.. ..	6.00	42.61
	TOTAL ..	161.14	220.67
<i>Sources of Financing</i>			
Demand No. 35			
Major Head '31' (Revenue Budget)	.. ..	63.56	91.72
Demand No. 31			
Major Head '74' (Grants to States)	.. ..	91.56	86.32
Demand No. 125			
Major Head '124' (Capital Budget)	.. ..	0.02	0.02
Demand No. 123			
P. Loans & Advances to the State Governments		6.00	42.61
	TOTAL ..	161.14	220.67

NOTE.—The requirements for 1966-67 should ordinarily have included the actuals for 1964-65, B.E. and R.E. of 1965-66. But in view of the time factor it had not been possible to work out these outlays by the above categories.

**(C) Explanation of Financial Requirements**

**1. Intensive Agricultural Development Programmes :**

Activities under this head comprise three major programmes, viz., the Intensive Agricultural District Programme (Package Programme), Intensive Agricultural Area Programme and High-yielding Varieties Programme. The Intensive Agricultural District Programme which was introduced in 1960-61 in seven districts to begin with, now covers 18 districts in the country. The programme has the object of demonstrating the potentialities of increasing food production through a multi-pronged, concentrated and coordinated approach to agricultural development in areas which are more responsive to intensive efforts. The essential features of the Programme include :—

- (a) development of 'package of Improved practices' for each important crop, based on the latest research findings;
- (b) providing guidance to the cultivators to develop individual farm production plans, and
- (c) extending assistance to cultivators to secure adequate and timely supplies of inputs like improved seeds, fertilisers, pesticides, implements and production credit.

The programme which has been in operation for more than six years in some districts, has demonstrated the effectiveness of farm planning as a reliable tool for agricultural development. The adoption of this approach has also lead to a substantial increase in the consumption of purchased inputs like quality seeds, fertilisers and pesticides on the one hand, and in average yielding of crops on the other.

Based on the experience gained in the implementation of the IADP, the concept of resource-concentration and selectivity was extended to additional areas having potentialities for stepping up agricultural production. The Intensive Agricultural Area Programme was, thus, introduced during 1964-65 in 117 districts. The programme covered nearly 133 lakh hectares of cropped area in 1304 selected blocks in these districts in 1965-66. The entire range of assistance and services made available to the farmers under the IADP is also extended to farmers in the IAAP districts, but on a lesser scale. Recognising the lack of storage facilities as one of the major impediments in implementing the programme, construction of a net-work of storage godowns a rural and rail-head/mandi levels in these districts was

initiated during 1964-65, and 1965-66 under the Special Development programme. Some of the relevant work indices regarding IADP and IAAP are given below : —

TABLE II

Particulars	IADP		IAAP	
	1964-65	1965-66	1964-65	1965-66
Districts covered .. ..	18	18	117	117
Blocks covered .. ..	296	303	965	1,304
Area covered (lakhs hect.)	27.00	303.30	90.00	133.00
Fertiliser consumption (lakhs tonnes in terms of Acres)	3.09	3.34	4.0	3.05
Area Covered by Improved Seed distribution (Lakh hect.) .. ..	6.85	7.00		
Percentage covered .. ..	25	23		
Use of Pesticides (Tonnes) ..	4,820	4,280		
Area covered by plant protection measures (Lakh hect.) .. ..	11.30	12.60	11.0	42.6
Lowest yield in the area (quintal/hect.) (Paddy) ..	9.0	3.4		
	(Bhandara)	(Raipur)		
Highest yield in the area (quintal/hect.) (Paddy) ..	24.1	21.2		
	(Mandy)	(Mandy)		
Average yield in the area (quintal/hect.) (Paddy) ..	14.7	12.2		
No. of Demonstrations ..	26,838	—		
No. of Soil Samples collected	68,370			
No. of Soil Testing .. ..	64,945			
No. of Soil recommendations made .. ..	52,269			

NOTES.—(i) Relates to 11 States only. (All except Bihar, Jammu & Kashmir, Punjab and West Bengal).

(ii) (IADP) data relates to only 17 districts excluding Jammu & Kashmir.

A development of major significance in the field of intensive agriculture is the introduction of the newly identified and evolved high yielding strains of paddy, wheat, maize, jowar and bajra which are responsive to high doses of fertilization. The scheme is being implemented, as far as possible in IADP and IAAP districts where the

necessary institutional infrastructure and additional staff have already been provided. During 1966-67, it is proposed to cover about 26 lakh hectares under improved varieties; this would increase to about 132 lakh hectares by the end of the Fourth Plan. The programme is expected to yield an additional production of 25.5 million tonnes of foodgrains out of the total extra production of 35 million tonnes envisaged at the end of the Fourth Plan Period.

Special assistance is provided by the Directorate of Extension in the implementation of these three programmes by way of drawing up the broad outline of the programme, laying down the pattern for staff and finances, training extension staff, providing technical advice and assistance, streamlining supply of essential inputs and credit and organising assessment surveys to throw light on the progress of the programme and the impact it is making.

## *2. Extension and Training :*

### *(a) Farm Advisory Services*

The Farm Advisory Unit provides the link between the Research Institutions on the one hand and the Extension Organisation in the States on the other. The Director, Farm Advisory Unit, assisted by subject matter specialists keeps continuous contact with the various Research Institutions and passes on this information to extension workers by means of preparation of suitable literature, correspondence with the State Government officers and also by arranging seminars and workshops of the concerned staff working in official and non-official institutions.

Besides, the following work is handled in the Farm Advisory Unit:

1. Organisation of Nation-wide Demonstration on major crops.
2. Organisation of All India Crop Competitions.
3. Award of Community Prizes
4. Arranging meetings of panel of progressive farmers and follow-up of their recommendations.

It also handles smaller schemes for the Freedom from Hunger Campaign Committee such as setting up poultry, mash units, piggery units. It also processed a scheme "Incentives to the Farmers for Increasing Agricultural Production." Recently it has taken over the implementation of Fertilizer Demonstrations Scheme which was previously handled by the ICAR.

TABLE III

	No. of requests received		No. of requests complied with	
	1964-65	1965-66	1964-65	1965-66
Technical Advice ..	596	677	505	546

TABLE IIIA

Type of crops	No. of plots selected for Demonstration	
	1965-66	1966-67 (Programme)
Rice .. .. .. .. .. .. ..	116	100
Jowar .. .. .. .. .. .. ..	49	206
Bajra .. .. .. .. .. .. ..	62	214
Maize .. .. .. .. .. .. ..	5	143
Ragi .. .. .. .. .. .. ..	79	50
Wheat .. .. .. .. .. .. ..	84	361
<b>TOTAL</b> .. .. .. .. .. .. ..	<b>395</b>	<b>1,980</b>

NOTE.—Programme of National Demonstration was started during 1965-66 under the International Productivity year.

Besides, under the Fertilizer Demonstrations Scheme which has been transferred to the Directorate of Extension, about 60,000 demonstrations are proposed to be taken up during the current year. The details are as under :

Type of Demonstration	No. proposed 1966-67
1. Package Type .. .. .. .. .. .. ..	7,000
2. Micronutrients .. .. .. .. .. .. ..	1,000
3. Soil amendments .. .. .. .. .. .. ..	1,000
4. Super compost .. .. .. .. .. .. ..	1,000
5. General type (NPK) .. .. .. .. .. .. ..	50,000
<b>TOTAL</b> .. .. .. .. .. .. ..	<b>60,000</b>

#### (b) Extension Education & Training

The Directorate of Extension is responsible for coordinating the various training activities in respect of Extension Education. Such education is specially being imparted through a net work of training institu-

tions which serves the needs of practically all categories of extension personnel. It is responsible not only for the adoption of scientific methods but also for the provision of suitable physical facilities and field standards for the training of extension workers. To meet the growing need for the training of Instructors, the Extension Directorate has set up three Extension Education Institutes at Nilokheri, Hyderabad and Anand. Post-graduate facilities have also been provided in extension methods and communication media at the last two Institutions. Besides this, various schemes for the training of youth and farmers' sons and farm women have also been taken up. The training Unit is charged with the task of preparation of schemes for the training of Extension personnel, their processing, execution review and follow-up Provision of technical guidance and making available financial assistance for the establishment and running of the Institutions. The Unit is also responsible for the preparation and periodic review of syllabii for different types of training. It prepares suitable literature on Extension Education, Home Science, Youth Activities and other related subjects.

TABLE IVA

Sl. No.	Type of Training courses at Extension Education Institute Nilokheri	1964-65	1965-66	1966-67
1.	<i>Refresher Training for VLW's</i>			
(a)	No. of persons trained ..	65	32	44
(b)	No. of courses organised ..	4	2	3
(c)	Duration of each course .. mths.	2	2	2
2.	<i>Inservice Training of Extn Officers</i> <i>Agriculture/Animal Husbandry</i>			
(a)	No. of persons trained ..	45	34	30
(b)	No. of courses organised ..	2	2	1
(c)	Duration of each course .. 6 weeks			
3.	<i>Inservice Training of the Institutional staff of GTC'S etc.</i>			
(a)	No. of persons trained ..	—	35	19
(b)	No. of courses organised ..	2	2	2
(c)	Duration of each course .. 2 months			
4.	<i>Inservice Training of the Institutional staff at the Extension Wings attached to Agriculture/Veterinary Colleges</i>			
(a)	No. of persons trained ..	—	—	—

(b) No. of courses organised ..	—	—	—	—
(c) Duration of each course ..	—	—	—	1 month.

TABLE IVB

	Extension Education & Training			
	No. of Training Centres	No. of 1964-65 Estimated	Persons 1965-66	Trained 1966-67 Estimated
1. Pre-service training at Gramsevak Training Centres .. .. ..	100	4,201	4,194	4,000
2. Pre-service training at Gramsevika Training Centres .. .. ..	42	1,567	792	771
3. Inservice training at Gramsevak Training Centres .. .. ..	52	3,816	4,700	6,000
4. Inservice training at Gramsevika Training Centres .. .. ..	42	746	228	2,100
5. Extension Education Institutes .. ..	3	215	223	210
6. Extension officers training in subject matter refresher courses .. .. ..	40	729	700	500
7. Pilot Youth programme No. of clubs opened (including Mahila Mandals) .. .. ..	100	955	955	1,000
8. Refresher Courses for Institutional staff ..	3	66	32	72
9. Exchange of farmers ..				3,000
10. International Farm Youth Exchange Programme (Nos. exchanged) .. .. ..			32	72
11. Gram Sahayak Training	65	25000 to date		

(c) *Farm Information & Publicity*

Dissemination of information of improved agricultural techniques and practices recommended by the extension experts for adoption at the field level by the farmers and provision of necessary information support to the various food production programmes initiated by the Ministry form an integral part of extension activity. The Farm Information in the Directorate of Extension performs this essential role. This

is done through the preparation of suitable publications and information material to be disseminated through various media for the use of extension workers including village level workers and the farmers. It provides guidance to the Agricultural Information Units established in all the States. Information support is also provided in the implementation of Intensive Programmes such as the package programme, high-yielding varieties programme by way of giving training to extension teachers, workers and Information Units in communication techniques. The Directorate of Extension helps in the publication of text-books and visual aids for the use of trainers and trainees at various extension institutions, distribution of extension and information materials such as magazines, bulletins, pamphlets, leaflets, charts, posters and other visual aids like film strips, slides and charts for the use of extension workers and farmers. It prepares extension material in national as well as regional languages for dissemination through other mass media, such as the press, the radio and the films. Necessary assistance is given in production and exhibition of film and for organisation of exhibitions.

TABLE V

	Farm	Information & Publicity		1966-67
		1964-65	1965-66	
1. Publications in English	.. ..	37	50	72
2. Publications in other languages	.. ..	37	45	55
3. No. of Exhibitions held	.. ..	27	39	4
4. Total number of copies of publications printed	.. .. ..	22.20 lakhs	30.00 lakhs	14.15 lakhs
5. Total number of copies of publication distributed	.. .. .. ..	22.13 lakhs	22.91 lakhs	14.37 lakhs
6. No. of film shows held	.. ..	122	120	80
7. No. of workshop and seminars	.. ..	4	5	3

(d) *General Administration*

The Administrative Unit caters to the house keeping needs of the Directorate. It also coordinates the programmes of the various technical units and exercises overall administrative, budgetary and financial control over the activities of the Directorate. The Director of Administration functions as the Head of the Department. The expenditure on administrative services and organisations and activities mentioned in the above paragraphs represents expenditure on general

administration. The relevant data is given below :

TABLE VI

		1964-65	1965-66	1966-67
1. No. of officers as on 31st March in the whole Organisation .. .. ..		48	54	57
2. No. of staff as on 31st March in the whole organisation .. ..		414	420	422

### 3. Agricultural Engineering

#### Agricultural Implements

The promotion of improved agricultural implements in the country is an aspect of extension activity which deserves special attention in view of the imperative need for raising Indian Agriculture to higher level of technology. The Agriculture Implements Units in the Directorate of Extension is responsible for coordinating the implements development work being done by various agencies. Its main objective is to evolve appropriate types of improved agricultural implements suited to the needs of the various regions/areas in the country in collaboration with the State Governments and also to help in their distribution and supply to the farmers. The activities of the Extension Directorate in development work are directed in :

- (a) formulating and supervising agriculture implements popularisation programmes;
- (b) advising farmers and Government Departments regarding the availability and supply of improved implements;
- (c) advising manufacturers regarding the type of implements to be manufactured, preparation and supply of blue prints, advice on methods of manufacture, etc.;
- (d) standardising improved agricultural implements in collaboration with ISI;
- (e) training village artisans, mechanics in the repair and manufacture of implements;
- (f) preparing materials on agricultural machinery for publications of articles, bulletins, posters, films, books, etc.;
- (g) examining applications received by Invention Promotion Board in respect of inventions in agricultural implements, to get them demonstrated, tested and to recommend their suitability for awards etc.;

- (h) arranging seminars, exhibitions, demonstrations of agricultural implements;
- (i) coordinating the research work taken up at 17 Research Testing Centres.

TABLE VII

	Implements Development Programme		
	1964-65	1965-66	1966-67
1. No. of Agricultural Implements designed during the year (in the Directorate of Extension and various RTC's) .. .. ..	15	18	20
2. Demonstrations, exhibition of the new Agricultural Implements (by the Directorate of Extension) .. ..	5	6	8
3. Production of select implements in the country:			
(a) Tractors .. .. ..	3,279	6,196	12,000
(b) Ploughs (Iron) .. .. ..	3,94,000	7,00,000	12,00,000
(c) Other Implements such as Harrows, Cultivators, Seed Drills, Patellas, Dusters, Sprayers, Threshers, and Planters etc. .. .. ..	4,30,000	5,00,000	6,00,000

#### 4. Grants to States

Being the central agency, the function of the Directorate is primarily to assist extension organisation of the State Governments in the implementation of various programmes. In all the activities, advisory or otherwise, whether in respect of intensive development programmes, training programmes, implements development programme or information support and publicity programmes, the effectiveness of the Directorate lies mainly in training their counterparts in the States and assisting them in all possible manner in a way that the technical information and other Government assistance reaches the ultimate beneficiary *i.e.* the cultivator himself. Therefore, besides technical guidance, substantial financial assistance is provided to the State Governments in effecting necessary administrative and technical improvements and in strengthening the field organisation to the desired and possible extent. The grants given to the various States for broad

items or activities are as under :

TABLE VIII

	(Rs. in lakhs provisional)					
				1965-66		1966-67
Area Development Programme .. .. .. ..				36.31		14.20
Extension Training .. .. .. ..				7.35		15.26
				(RE)		(RE)
Implements Development .. .. .. ..				3.55		5.13
Others .. .. .. ..				44.35		51.73

### EXPLORATORY TUBE WELLS ORGANISATION

#### (PROGRAMME & PERFORMANCE)

##### (A) Authority, Scope and Objectives

The Exploratory Tubewells Organisation, with the Chief Engineer as its functional head, is concerned with assessing the ground water potential in selected areas mainly with a view to the expansion of tubewell irrigation. The work of the organisation is carried out through its four divisions, one each at Roorkee and Muzafarpur and two at Jodhpur. The organisation started ground water exploration in January 1955 with technical and financial cooperation of the T.C.M. (now US AID).

(ii) In addition to its main activity of ground water exploration, the organisation has, of late, been undertaking construction of production tubewells on behalf of the State Governments. In particular, the organisation has been assisting the Government of Rajasthan since 1964-65 in the construction of 250 tubewells (later revised to 200 successful tubewells) in the scarcity areas as a famine relief and irrigation measure. It had also to undertake the construction of production wells in Kutch (Gujrat) in view of the serious drought conditions as also in Bihar due to the importance of increasing the production of Sugarcane.

(iii) Besides, a special project on pre-investment survey for ground water development has also been undertaken since 1965-66 with assistance from the United Nations Special Project Fund.

(iv) A scheme of training officers sponsored by the State Governments on techniques related to construction and testing of water wells in India has also been started since February 1966.

The following are the financial requirements for 1966-67.

TABLE I  
(B) *Financial Requirements*

(In lakhs of Rupees)

Activity	Actuals (1964-65)	Budget Estimates (1965-66)	Revised Estimates (1965-66)	Budget Estimates (1966-67)
1	2	3	4	5
1. Ground Water Exploration .. ..	23.33	35.37	45.04	41.14
2. Pre-Investment Survey for Ground Water Development .. ..	—	—	0.02	10.00
3. Training .. ..	—	—	0.73	10.00
4. Administration@ ..	3.41	3.93	4.32	4.50
<b>TOTAL (I)</b> ..	<b>26.74</b>	<b>39.30</b>	<b>50.11</b>	<b>65.64</b>
<i>Object Classification</i>				
1. Establishment charges	16.74	18.75	19.95	31.13
2. Travel .. ..	2.87	1.75	2.92	4.39
3. Stores, Material and Labour .. ..	(—)7.34	3.00	11.51	0.50
4. Tools and Plant ..	13.51	15.00	14.00	25.24
5. Other charges (contingencies) .. ..	0.96	0.80	1.73	4.38
<b>TOTAL (II)</b> ..	<b>26.74</b>	<b>39.30</b>	<b>50.11</b>	<b>65.64</b>

*Source of Financing*

From Consolidated Fund of

India (\*\*)  
(Demand No.———; Major Head 31

\*Includes a sum of Rs. 11 lakhs as non-plan provision. The rest is all Plan expenditure.

@90% of the expenditure of C. Es. Organisation is assumed as administrative expenses.

(\*\*) No part of the expenditure is "charged."

(C) *Explanation of Financial Requirements*

(Rs. in lakhs)

1. <i>Ground Water Exploration</i> .. .. ..	R.E. (65-66)	B.E. (66-67)
	45.04	41.14

This is the major activity of the Exploratory Tubewells Organisation. A total of 379 bore holes were drilled in 13 States by the end of the Second Plan period, the area explored being about 1.32 lakhs sq. kms. in all, of which about 41,500 sq. kms. proved ground water worthy.

(ii) Out of the Third Plan target of 300 exploratory bores, the number actually drilled was 201. The progress was slow due to the organisation diverting most of its rigs in 64-65 from exploratory works to construction of tubewells in the Famine affected areas of Rajasthan, in the drought areas of Kutch (in Gujarat) and also in Bihar where they are still engaged in that work.

(iii) In case of exploratory tubewells, wherever the boring proves successful with reference to the standards and criteria laid-down, the tubewells are handed over to the respective State Governments for further action and cost recovered from them in the form of long term loans.

(iv) The organisation has of late been increasing applying itself in the construction of production tubewells as an executing agency on behalf of the State Governments, private parties etc. In this case, the cost together with a prescribed percentage towards establishment, tools and plant etc. is passed on to the State Governments concerned for adjustment. An important part of this activity is the programme of construction of 250 tubewells (later revised) to 200 successful wells in the scarcity areas of Rajasthan as a famine relief and irrigation measure, 122 tubewells in Kutch (Gujarat) to meet drought conditions and 175 tubewells in Bihar because of the importance of the increase in production of sugarcane.

The relevant work load information is given in Tables II and III below :—

TABLE II  
*Exploratory Tubewells*

Year	1	No. of bores drilled		No. proved successful	Remarks
		Target	Actuals		
1963-64	..	..	—	65	29 Target not known
1964-65	..	..	—	10	Do,
1965-66	..	..	9@	3	@Revised target was 4.
TOTAL—THIRD PLAN ..		300	201	67	
1966-67 (anticipated)	..	66	—	—	

TABLE III

*AGENCY WORKS*(Production Tube-wells etc. on behalf of State Govts.,  
Private parties etc.)

1964-65	..	..	—	212	175	Target not known.
1965-66	..	..	300*	248	183	*Revised target was 256.
1966-67	..	..	166@	—	—	@120 are expected to be successful

In respect of works carried out on behalf of State Governments, private parties etc. (Agency works), the amount recovered towards departmental charges (establishment, tools and plant) and hire charges of machinery were as follows :—

TABLE IV

(Rs. in lakhs-approximately)

	1964-65	1965-66	1966-67 (anticipated)
Departmental charges:	..	12.61	7.14
Hire Charges:	..	14.00	30.00

2. *Pre-investment Survey for Ground Water Development:*

(Rs. in lakhs)

R.E.(65-66)	B.E.(66-67)
0.02	10.00

This activity has been undertaken with financial assistance from the U.N. Special Project Fund in the arid and West zones of Rajasthan and U.P. respectively. This project is for a total period of 4 years ending with 70-71, total U.N. Fund assistance being of the order of about 1 million dollars. The object is to undertake intensive pre-investment ground water development surveys that will provide data and techniques on ground water assessment for application throughout the country. The variation between the R.E. for 1965-66 and B.E. 1966-67 is due to the fact that this activity was launched only towards the end of 1965-66. Provision for the whole year is now made for 1966-67 as against part provision in R.E. 1965.

(Rs. in lakhs)

3. Training	..	..	..	..	..	R.E.(65-66)	B.E.(66-67)
						0.73	10.0

A scheme for training of officers sponsored by the State Governments etc., on techniques related to construction and testing of water wells in India has been started since February, 1966. The training is expected to be useful to the State officials for conducting ground water surveys and in locating and proving the occurrence of ground water. As observed in 2 above, this activity was also undertaken only towards the end of 1965-66 and hence the variation between R.E. 1965-66 and B.E. 1966-67.

	(Rs. in lakhs)	
4. Administration	R.E.(65-66)	R.E.(66-67)
	4.32	4.50

Expenditure under this head is towards expenses on the house keeping job of the organisation such as pay and allowances on administrative and supervisory staff and officers at Head Quarters, Stationery, Printing, rent, telephones, and other contingent charges etc. Expenditure on men and material engaged or used on the activities is reflected under the respective activities. The following table gives the staff position.

TABLE V

	1964-65	1965-66	1966-67	
				(anticipated)
(a) No. of officers at the end of ..	..	54	58	62
(b) No. of staff at the end of ..	..	580	606	635

#### *Variation in Budget Estimates*

The overall budget estimates for 66-67 of the organisation show an increase over R.E. for 65-66 mainly due to more procurement of tools and plant and provision for the whole year in respect of Pre-Investment Survey and training activities as against part provision in R.E. of 65-66. Increase in the rates of D.A. and increases under T.A. and other charges also account for the overall increase in the budget provision.

## DELHI MILK SCHEME

## (PROGRAMME AND PERFORMANCE)

## (A) Authority, Scope and Objectives

The Delhi Milk Scheme, which is a Second Five Year Plan project of the Department of Agriculture has the object of reorganising the milk supply of the capital with a view to assuring supply of good and wholesome milk at a reasonable price to the consumers on the one hand and a remunerative market to the milk producers on the other. A sum of £800,000 was made available as a cash grant by the Government of New Zealand, under the Colombo Plan, for the purchase of equipment required for the central dairy and its ancillary milk collection and chilling centres. In addition, equipment worth £13,250 was also received from the Government of New Zealand under the Colombo Plan. The financial requirements for the year 1966-67 are as under :

TABLE I  
(B) Financial Requirements

(Rs. in Lakhs)

Activities	Actual (1964-65)	Budget Estimates (1965-66)	Revised Estimates (1966-67)	Budget Estimates (1966-67)
1	2	3	4	5
<b>(a) Procurement of Milk</b>				
(i) Purchase of Milk ..	267.43	328.17	419.00	584.72
(ii) Purchase of Milk Powder .. ..	27.48	30.00	10.00	10.00
(iii) Collection expenses ..	13.61	13.29	14.78	16.09
	308.52	371.46	443.78	610.81
<b>(b) Processing of Milk &amp; Milk Products</b>				
(c) Distribution .. ..	13.41	13.08	14.55	15.84
(d) Quality Control .. ..	0.88	0.86	0.95	1.03
(e) Administration .. ..	10.45	10.10	11.35	12.35

1	2	3	4	5
<i>Capital Outlay:</i>				
f) Stores and Equipment ..	67·13	96·76	102·99	121·69
(g) Land, etc. ..	0·83	3·00	1·23	1·50
<b>TOTAL (I)</b> ..	<b>412·53</b>	<b>506·38</b>	<b>587·12</b>	<b>776·58</b>

*Object Classification:*

Establishment charges ..	49·31	48·19	53·55	58·27
Travel .. ..	0·35	0·26	0·35	0·40
Milk & Powder .. ..	294·91	358·17	429·00	594·72
Stores .. ..	42·51	48·76	69·22	88·19
Equipment & Machinery ..	24·62	48·00	33·77	33·50
Land, etc. .. ..	0·83	3·00	1·23	1·50
<b>TOTAL (II)</b> ..	<b>412·53</b>	<b>506·38</b>	<b>587·12</b>	<b>776·58</b>

*Sources of Financing:*

(i) From General Revenues, Revenue Demand No. 40; Major Head 39 ..	9·08	7·60(P)	7·60(P)	7·17
(ii) From General Revenues Capital Demand No. 126 Major Head 95				
Charged .. ..	0·65(P)	1·00(P)	1·00(P)	1·00(P)
Voted .. ..	24·80	50·00	34·00	34·00
(iii) From General Revenues—Capital Demand No. 126; Major Head 124 ..	378·00	447·78	544·52	734·41
<b>TOTAL</b> .. ..	<b>412·53</b>	<b>506·38</b>	<b>587·12</b>	<b>776·58</b>

(P) --Plan.

(C) *Explanation of Financial Requirements*

1. The overall targets and achievements during the Third Plan, the

programmes for the Fourth Plan period and for the year 1966-67 are given below :

TABLE II

Particulars	Third Plan		Fourth Plan Targets	1966-67 Target
	Targets	Achieve- ments		
1	2	3	4	5
(a) Financial Provision in the Plan (in lakhs of Rs.)	240	189.97	258	35
(b) Average milk handled per day (in maunds) ..	7,000	6,200 (Approx.)	12,000	6,500
(c) Milk Depots (Nos.) ..	1,000	733	1,800	250
(d) All Day Milk Shops (Nos.)	50	11	60	—
(e) Milk Collection and chilling centres (Nos.)	30	14	40	3

2. An analysis of the working of the scheme over the past 3 years is brought out in the Table below :

TABLE III

Particulars	Years					
	1963-64	1964-65	1965-66			
(a) Govt. Capital at the close of year ..	159.56	187.71	N.A.			
(b) Sales (Milk & Milk Products) ..	343.59	303.10	—			
(c) Wages and Salaries (District) ..	30.09	51.51	—			
(d) Interest and depreciation ..	14.97	17.42	—			
(e) Transportation charges ..	15.60	17.69	—			
(f) Selling and distribution Expenses ..	19.13	20.88	—			
(g) Net Profit (+) or loss (—) ..	(—)23.09	(—)97.77	—			
(h) % of loss on Turnover ..	6.72	32.26	—			
(In Paise)						
Particulars	1963-64		1964-65		1965-66	
	Average cost price per litre	Average selling price per litre	Average cost price per litre	Average selling price per litre	Average cost price per litre	Average selling price per litre
1	2	3	4	5	6	7
(i) Buffalo milk	67	62	89	70	89	84
					(estimated)	

1	2	3	4	5	6	7
Cow milk	69	62	95	70	87	84
Toned milk	—	42	62	44	67	54
Double Toned milk ..	—	—	—	—	40	42

3. The following further details and work load data are given, activity-wise :

(Lakhs of Rs.)

(a) *Procurement of Milk :*

(i) *Purchase of Milk :*

R.E. (65-66) B.E.(66-67)

419·00 584·72

Against an installed capacity of 7000 maunds (2.55 lakh litres) of whole milk per day, the actual quantity procured during the last 3 years is as follows :

TABLE IV

Year	Total procure- ment	Average procure- ment per litre		
		(lakh litres)	Average per day	(Paise)
1963-64	.. 483·31	1·32	53·54	(Buffalo milk)
1964-65	.. 390·12	1·07	68·65	„
1965-66	.. 516·41	1·41	73·34	„
1966-67 (anticipated).	.. 750·00	2·55	77·25	„

The fall in procurement in 1964-65 was mainly due to heavy floods, disease among cattle and heavy increases in the prices of food grains and cattle food. Raw buffalow milk is procured principally from U.P. and Punjab through a net work of collection and chilling centres. The increase in the budget estimates for 1966-67 under this activity is mainly on account of increase in the quantity procured as also due to increase in procurement price per litre, *vide* Table IV above.

(Lakh of Rs.)

(ii) *Purchase of Milk Powder*

R.E.(65-66) B.E.(66-67)

10·00 10·00

Due to shortfall in the procurement of milk from local sources and to meet the growing demands, large quantities of imported skimmed milk powder were being used for the preparation of toned milk, etc. The total value of imported powder received during 1964-65 and 65-66 was Rs. 20.32 lakhs and Rs. 18.75 lakhs respectively. The landed cost of imported powder was Rs. 1.28 per Kg. in 1963-64 and Rs. 2.50 per Kg. in 1964-65. With greater availability of milk from local sources, the quantity of milk powder purchased is now on the decrease.

(Lakhs of Rs.)

<i>(iii) Collection Expenses</i>	R.E.(65-66)	B.E.(66-67)
	14.73	16.09

The amount under this activity represents procurement expenses (*e.g.*, salaries and wages, transport, etc.) in the collection and transportation of milk from the several centres to the Central Dairy. Collection expenses per litre averaged to 4 paise in 64-65, 3 paise in 65-66 and is expected to be about the same during 1966-67 (approximate).

(Lakhs of Rs.)

<i>(b) Processing of Milk and Milk Products</i>	R.E.(65-66)	B.E.(66-67)
	12.27	13.36

The milk collected is chilled at the chilling centres and then transported to the Central Dairy where it is pasteurised and bottled. The milk processing plant has a rated capacity of 2.73 lakh litres a day of double shift, against which percentage of capacity achieved was 52.26 (1963-64), 50.57 (1964-65) and 64.26 (1965-66). The bottling plant has a capacity of 4.80 lakh bottles per day. The achievement was 57% during 1964-65 and 66.58% during 1965-66.

Milk products such as butter, ghee, skimmed milk powder, ice-cream, etc. are being manufactured in small quantities. Table V below gives the production figures during the last two years as well as the rated capacities of the plants and the percentage of capacity achieved.

TABLE V

Name of the Plant	Rated capacity	% capacity achieved	Quantity manufactured in Kg.		
1	2	3	4	5	6
		1964-65	1965-66	1964-65	1965-66
Butter Manufacturing Plant.	5000 Kgs. a day of double shift.				
		10.55	36.64	91,697	3,98,715

1	2	3	4	5	6
Ghee Manufacturing Plant.	1000 Kgs. a day of double shift.	19.87	47.50	72,650	5,20,098
Milk Powder Plant	18000 litres a day of double shift.	17.70	38.30	1,07,886	2,26,798
Ice Cream Plant . .	57.60 lakh cups and bars per year.	3.4	2.09	N.A.	N.A.

(Lakhs of Rs.)

*(c) Distribution*

R.E. (65-66)	B.E. (66-67)
14.55	15.84

Milk is distributed through a net work of Milk Depots and All-Day Milk Shops. It is proposed to have 1000 milk booths by the end of 1966-67 against 773 obtained at the end of the Third Plan. The number will be increased to 1800 by the end of the Fourth Plan. Similarly, the All-Day Milk Shops will be raised to 60 by the end of the Fourth Plan. Distribution expenses per litre averaged to 3 paise in 64-65 and about the same in 65-66—

(Lakhs of Rs.)

*(d) Quality Control*

R. E. (65-66)	B.E.(66-67)
0.95	1.03

The milk is pasteurised, tested at Quality Control laboratory and then filled in bottles. Similarly, raw milk purchased at chilling centres is checked for chemical and bacteriological qualities at quality control laboratories provided in the centres. When they reach the central dairy, they are again tested immediately. The number of milk samples chemically and bacteriologically analysed is as follows during 1964-65 and 1965-66.

TABLE VI A

Year	Milk				
	At Chilling centres		Tankers	Raw milk storage tanks	Pasteurised Milk storage tanks
	1	2	3	4	5
1964-65	..	..	..	N.A.	N.A.
1965-66	..	..	..	1,75,336	15,024
					11,778
					14,645

TABLE VI B  
*Complaints Received*

Year	Milk	Ghee	Ice-cream	Butter	Curd	Total
1	2	3	4	5	6	7
1964-65	..	N.A.	N.A.	N.A.	N.A.	N.A.
1965-66	..	23	24	2	1	51

(Lakhs of Rs.)

<i>(e) Administration</i>	R.E.(65-66)	B.E.(66-67)
	11.35	12.35

This activity is towards house keeping operations of the scheme such as pay and allowances of officers and staff administering the scheme, rent, telephones and other such contingent charges. The following is the staff position :—

TABLE VII

Particulars	1964-65	1965-66	1966-67 anticipated
(i) No. of officers as on 31st March ..	54	58	63
(ii) No. of regular staff as on 31st March ..	1,309	1,519	1,670
(iii) Percentage of Administrative expenses to total expenditure during the year .. .. ..	2.53	2.01	1.59

### CAPITAL OUTLAY

*(f) and (g) : Stores and Equipment, Land etc.*

The expenditure under these heads represents capital outlay on the stores, equipment, etc. required for the working of the scheme and acquisition of land and buildings.

**B—ECONOMIC CLASSIFICATION OF THE BUDGET FOR THE YEAR 1966-67**

Current Account	Actuals 64-65	65-66 Revised	B.E. 66-67	Capital Account	Actuals 64-65	R.E. 65-66	B.E. 66-67
<b>1. Consumption Expenditure</b>				<b>1. Gross Fixed Capital Formation</b>			
Wages & Salaries . . .				@Buildings and other construction			
Commodities & Services . . .				(a) New Outlay . . .			
				(b) Renewals and Replacements			
<b>2. Transfer Payments : Grants</b>				<b>Machinery and Equipment</b>			
(a) To States and Union Territories . . .				(a) New Outlay . . .			
(b) To Local authorities . . .				(b) Renewals and Replacements			
(c) To others . . .				<b>2. Increase in Inventories, Works Stores</b>			
<b>Other Current transfers</b>				<b>3. Capital Transfers</b>			
(a) Subsidies . . .				<b>Grants for Capital Formation</b>			
(b) Others . . .				(a) To States and Union Territories . . .			
<b>TOTAL</b> . . .				(b) To Local authorities . . .			
				(c) To others . . .			
				<b>Other Capital Transfers</b>			
				<b>TOTAL</b> . . .			
				@Other than those that are included under PWD budget.			

REVENUE . . .

### C.—DEMAND FOR GRANTS

#### DEMAND NO.—

*Estimate of the amount required in the year ending 31st March 1967 to defray the charges in respect of agricultural programmes of the Dept. of Agriculture*

VOTED—Rupees Twenty one crores, sixty nine lakhs and thirty five thousand only.

*Sub-heads under which this Grant will be accounted for on behalf of the Department of Agriculture.*

Description	Actuals (64-65)	B.E. (65-66)	R.E. (65-66)	B.E. (66-67)
(1)	(2)			

**31—Agriculture (Major Head)**

**Extension and Training (Minor head)**

**Directorate of Extension and Training (Group head).**

**Farm Advisory Services (Sub-group head)**

**Non-Plan**

- (i) Establishment charges . . . . .
- (ii) Travel . . . . .
- (iii) Other charges (Sub-heads) . . . . .

**Extension Education and Training (Sub-group Head).**

**Plan**

- (i) Establishment charges . . . . .
- (ii) Travel . . . . .
- (iii) Other charges . . . . .
- (iv) Materials and Equipment . . . . .

**Non-Plan**

- (i) Establishment charges . . . . .
- (ii) Travel . . . . .
- (iii) Other charges . . . . .
- (iv) International Youth Exchange Programmes (Sub-heads) . . . . .

**Farm Information and Publicity (Sub-group head).**

**Non-Plan**

- (i) Establishment charges . . . . .
- (ii) Travel . . . . .

1	2
(iii) Other charges . . . . .	
(iv) Exhibitions . . . . .	
(v) Production of Agricultural Information Literature, etc. . . . .	
(vi) Production and distribution of Posters, slides, filmstrips etc. . . . .	
(vii) Staff Training and orientation ( <i>Sub-heads</i> ) . . . . .	
<i>General Administration (Sub-group head)</i>	
<i>Non-Plan</i>	
(i) Establishment charges . . . . .	
(ii) Travel . . . . .	
(iii) Other charges ( <i>Sub-heads</i> ) . . . . .	
<i>Crop Competitions and other incentive Schemes</i>	
<i>(Sub-group heads)</i>	
<i>Non-Plan</i>	
(i) Crop Competitions . . . . .	
(ii) Others . . . ( <i>Sub-heads</i> ). . . . .	

- NOTES—(1) The above is only illustrative with reference to one minor head and one organisation connected therewith. Similarly, other minor heads under 31-Agriculture and organisations are also to be shown as presented above.
- (2) Under the technique of performance budgeting envisaged, There will be the main performance budget document in terms of organisations, their activities, etc. in both financial and physical terms as illustrated in section (v). In addition, a separate part will be devoted to Demands for Grants as out-lined above.
- (3) It would appear advantageous to have one Demand for one major head operated by one Department.
- (4) As at present, Capital Demands will be separately presented.

## APPENDIX II-A

**PROPOSED SCHEME OF MINOR HEADS. (DEPARTMENT OF AGRICULTURE—31—AGRICULTURE)**

Minor heads as proposed (broad activities)	Group heads under Minor head (sub-activities or group of schemes or units)
(1)	(2)
1. Direction . . . . .	Directorate
2. Superintendence . . . . .	Supervisory Units.
3. Agricultural Farms and Improved Seeds	State Commercial Farms Seed Multiplication Farms Experimental and Demonstration Farms Other Agricultural Farms Seed Distribution Seed Stores and Testing.
4. Extension and Training . . . . .	Agricultural Information Services Demonstrations and Propaganda Exhibitions and Fairs. Crop competitions and other incentive schemes Training. Improved Agricultural Practices Others.
5. Intensive Agricultural Programmes	Intensive Agricultural Area/District Programmes Intensive Cultivation Schemes High Yielding Varieties Programmes Other Package Programmes and campaigns Subsidiary Food and Applied Nutrition Programmes
6. Manures and Fertilisers . . . . .	Compost and Local Manure Development of Green Manures Chemical Fertilisers Distribution of Soil Ameliorants
7. Agricultural Experiments and Research	Agricultural Research Schemes I.C.A.R. Other Agricultural Research Centres

(1)	(2)
	Soil Survey and Testing. Others.
8. Agricultural Education . . . . .	Agricultural Colleges Agricultural Schools Training.
9. Agricultural Engineering . . . . .	Agricultural Machinery and Implements. Boring Operations. Engineering Workshops. Tractor Hiring. Others.
10. Botanical and other Public Gardens	
11. Agricultural Marketing . . . . .	Agricultural Marketing and Research. Grading & Testing. Inspection and Quality Control Warehousing. Cold storage.
12. Minor Irrigation . . . . .	Construction and Deepening of wells. Tube wells and Artesian wells. Installation of pumping sets on wells and rivers. Repairs to wells and tanks. Tank irrigation schemes. Drainage schemes. Subsidy schemes.
13. Plant protection and Quarantine . . . . .	Plant Protection and Pest control Aerial Spraying. Others.
14. Land Development . . . . .	Soil Conservation Land Reclamation and De- velopment. Tractor Ploughing. Ayacut Development Schemes. Others.
15. Development of Commercial Crops and Horticulture . . . . .	Jute Mesta Sismal Ramie Sugarcane

(1)	(2)
	Cotton Coconuts Oil seeds Tobacco Cashew Cardamom Pepper Arecanut Coffee Rubber Other Plantations Horticulture including Vegetables Potato Root crops
16. Colonisation Schemes	Rehabilitation of Landless labour. Others.
17. Grants to Panchayati Raj Institutions	Direction and Superintendent. Agricultural Farms and improved seeds. Extension & Training. Intensive Agricultural Programmes Manures and Fertilisers. Agricultural Education. Agricultural Engineering Agricultural Experiments and Research. Agricultural Marketing Minor Irrigation. Plant Protection and Quarantine Land Development. Development of Commercial Crops and Horticulture. Colonisation schemes. Miscellaneous.
18. Miscellaneous	Agricultural Statistics. Other services.

- NOTES—(1) The Group heads indicated in column 2 are illustrative and not exhaustive.
- (2) Under the proposed scheme of classification, sub-group heads may be opened under the group heads mentioned in column

2 so as to specify the several schemes thereunder. Sub-heads of accounts to serve as units of appropriation such as establishment charges, travel, other charges, grants-in-aid and contributions, scholarships and stipends etc. will come under sub-group heads or the schemes.

- (3) A head entitled 'Deduct: Amount, met from Reserve Funds and Deposit Accounts' may be opened as a distinct group-head under each minor head wherever necessary to bring out the net effect of transactions under an activity. This is an existing practice in some States.

*APPENDIX II-B*

**STATEMENT EXPLAINING THE EXISTING AND PROPOSED MINOR HEADS (DEPARTMENT OF AGRICULTURE—31—AGRICULTURE)**

Proposed Minor Heads 1	Existing Minor Heads 2	Remarks 3
1. Direction . . . . .	1. Direction	To record charges on account of the Directorate of Agriculture.
2. Superintendence . . . . .	2. Superintendence 3. Subordinate and Expert Staff.	To record charges on account of all supervisory staff, such as Deputy Directors, Assistant Directors, Superintending Agricultural Officers, District level officers, etc. at various levels. The existing head 'Subordinate and Expert Staff' is unnecessary.
3. Agricultural Farms and Improved seeds .	4. Experimental Farms	See group heads in Appendix II-A for the scope of the proposed new head. At present, there is no such head, expenditure on farm activities being booked under other minor heads, including 'Experimental Farms'.
4. Extension and Training . . . .	5. Agricultural Demonstration and propaganda including public exhibitions and fairs.	The proposed head is more comprehensive and purposeful than the existing one covering all farm activities and seed programmes.
5. Intensive Agricultural Programmes .	—	The nature of activities covered under the proposed head can be known from the group heads in Appendix II-A. The Proposed head covers fully the existing head and is more comprehensive.
6. Manures and Fertilisers .	—	The group heads in Appendix II-A explain the scope of this head. At present, these programmes have on definite or appropriate place in budget and accounts. Do.

1	2	3
7. Agricultural Experiments and Research . . . . .	6. Agricultural Experiments and Research.	Self-explanatory; see appendix II-A also. A group head has been suggested for the Indian Council of Agricultural Research and its allied Institutes. For activities and schemes under I.C.A.R. etc. sub-group heads and sub-heads may be opened. A minor head may not be quite in tune with the proposed scheme which is actively oriented.
8. Agricultural Education . . . . .	7. Agricultural Education	No remarks; see also Appendix II-A.
9. Agricultural Engineering . . . . .	8. Agricultural Engineering 9. Boring Operations.	See group heads in Appendix II-A. Boring operations, in so far as they relate to Agricultural Engineering and the Exploratory Tube Wells Organisation at the Centre, come under the group head of this nomenclature against Agricultural Engineering. Boring for Irrigation done in States falls under Minor Irrigation (minor head.)
10. Botanical and other Public gardens . . . . .	10. Botanical and other public gardens.	This does not appropriately fall under Agriculture. It is for consideration whether it may not be deleted from this major head.
11. Agricultural Marketing . . . . .	11. Indian Council of Agricultural Research.  12. Scheme for the improvement of Agricultural Marketing in India.	Under the proposed scheme, it will come as a group head of the same nomenclature under 'Agricultural Experiments and Research'. See also remarks against item 8 above.
		The proposed head is simple in nomenclature.

12. Minor Irrigation	The group heads in Appendix II A may be seen. At present, such expenditure is appearing in a disorganized manner.
13. Plant Protection and Quarantine	See Appendix II A. At present in the States, Expenditure on this activity appears under other heads, and at the Centre, under Subordinate and expert Staff.
14. Land Development	The various types of expenditure under this head are covered in the groups heads in Appendix II-A. At present they are diffused at other places.
13. Special Rural Uplift schemes	Depending on the nature of schemes, expenditure will be booked against the concerned minor heads by activity, (This minor head is presently operated upon only in U.P. and Tripura).
14. Payments from the fund for the Relief of groundnut cultivators	This will be a sub-head under 'Development of Commercial crops and horticulture' in the proposed scheme of classification against the relevant group head 'oil seeds'. This head is not being operated upon by Madras and Maharashtra States.
15. Block Grant for Transfer to the Deposit Account of grants for the relief of groundnut cultivators.	Do.
16. Cane Development and Regulation of Sugar Industry.	This is to be deleted in view of the proposed minor head 'Development of Commercial crops and Horticulture' and group heads thereunder. This

1	2	3
15. Development of Commercial Crops and Horticulture	—	head also is not operated upon by Madras and Maharashtra States.
16. Colonisation Scheme . . . . .	17. Colonisation Schemes. 18. Transfer to the Agricultural Improvement Fund.	New Head; See group heads in Appendix II-A  See Appendix II-A This head is proposed to be deleted; depending on the purpose served, the expenditure on the transfers, if any, will come under the concerned minor heads. This head is inoperative and there is no balance in the Fund.
17. Grants to Panchayati Raj Institutions . . . . .	—	This is rather too general and has no place in the scheme of classification proposed; also it is not being operated upon.
18. Miscellaneous Services. . . . .	20. Miscellaneous	At present, such expenditure figures under the respective minor heads or under the minor head 'Grants-in-aid, Contributions, etc.' It is considered desirable to have grants to Panchayati Raj Institutions, Plan as well as non-plan, at one place. (This proposed minor head will not, however, appear at all if the proposal to open a distinct major head "Grants to Panchayati Raj Institution's" stated to be under the consideration of Comptroller and Auditor General and Min. of Finance is accepted.)  The group heads under Appendix II-A may also be seen. This head is to cover all miscellaneous services that cannot be appropriately fitted into any of the regular minor heads suggested.

21. Grants-in-aid, Contributions etc.

Under the proposed scheme, normal grants-in-aid to individuals, organisations, etc. will come as sub-heads under the respective major heads. Grants to Panchayati Raj Institutions will come under Item (17) above.

22. Fisheries

This should get the status of major head.

23. Other Charges

This is superfluous and has no defined scope.

24. Charges in England

This may form a sub-head under the concerned minor head.

### ***APPENDIX III-A***

#### **DEMAND STRUCTURE UNDER PERFORMANCE BUDGETING—AN ILLUSTRATION WITH REFERENCE TO DIRECTORATE OF EXTENSION AND TRAINING AT THE CENTRE (1966-67)**

<i>Minor Head :</i>	<i>Demand No : 35</i>
<i>Group Head :</i>	<i>Major Head No 31 Agriculture</i>
<i>Sub-group Head :</i>	<i>Extension and Training</i>
<i>Sub-Heads :</i>	<i>Directorate of Extension and Training</i>
	<i>Farm Advisory Services</i>
	<i>Non-Plan</i>
	<i>(i) Establishment Charges</i>
	<i>(ii) Travel</i>
	<i>(iii) Other Charges</i>
<i>Sub-group Head :</i>	<i>Extension Education and Training</i>
<i>Sub-Heads :</i>	<i>Plan</i>
	<i>(i) Establishment Charges</i>
	<i>(ii) Travel</i>
	<i>(iii) Other Charges</i>
	<i>(iv) Material and equipment</i>
	<i>Non-Plan</i>
	<i>(i) Establishment Charges</i>
	<i>(ii) Travel</i>
	<i>(iii) Other Charges</i>
	<i>(iv) International Youth Exchange Programmes.</i>
<i>Sub-group Head :</i>	<i>Farm Information — Publicity</i>
<i>Sub-Heads :</i>	<i>Non-Plan</i>
	<i>(i) Establishment charges</i>
	<i>(ii) Travel</i>
	<i>(iii) Other charges</i>
	<i>(iv) Exhibitions</i>
	<i>(v) Production of Agricultural Information Literature, etc.</i>
	<i>(vi) Production and Distribution of posters, slides, film strips, etc.</i>
	<i>(vii) Staff Training and Orientation.</i>
<i>Sub-group Head :</i>	<i>General Administration</i>
<i>Sub-Heads :</i>	<i>Non-Plan</i>

	(i) Establishment charges (ii) Travel (iii) Other charges
<i>Sub-group Head :</i>	<i>Crop competitions and other incentive schemes.</i>
<i>Sub-Heads :</i>	<i>Non-Plan</i> (i) Crop competitions (ii) Others
<i>Minor Head :</i>	<i>Intensive agricultural programmes</i>
<i>Group Head :</i>	<i>Directorate of Extension &amp; Training.</i>
<i>Sub-group Head :</i>	<i>Intensive agricultural development programmes</i>
<i>Sub-Heads :</i>	<i>Plan</i> (i) Grants-in-Aid and contributions. (ii) Material and Equipment (iii) Other charges
	<i>Non-Plan</i> (i) Establishment charges (ii) Travel (iii) Other charges (iv) Grants-in-Aid and contributions. (v) Training of staff.
<i>Minor Head :</i>	<i>Agricultural Engineering</i>
<i>Group Head :</i>	<i>Directorate of Extension &amp; Training.</i>
<i>Sub-Group Head :</i>	<i>Agricultural Machinery and Implements</i>
<i>Sub-Heads :</i>	<i>Plan</i> (i) Establishment charges (ii) Travel (iii) Other charges
	<i>Non-Plan</i> (i) Establishment charges (ii) Travel (iii) Other charges
<i>Notes :</i>	(i) Under the proposed scheme, the minor heads correspond to the major programmes of the Departments, Group Heads to the organisation, Sub-Group Heads to the activities of the organisations and Sub-Heads to the objects of expenditure constituting units of appropriation. Variations below minor heads are, however, envisaged in the case of the States.

- (2) In the illustration given above, the Directorate of Extension and Training appears as a Group-Head under more than one Minor Head. This is because more than one major activity of the Department is executed by the Directorate of Extension and Training.

## APPENDIX III-B

### BUDGET DOCUMENTS UNDER PERFORMANCE BUDGETING (CENTRE)

Under the technique of performance budgeting as envisaged in the Report, there will be two main documents, *viz.*, the Performance Budget and the Appropriation Structure (*i.e.*, Demands for Grants), in addition to the Economic Survey, Budget Speech, Budget in brief, Explanatory Memorandum, Economic Classification of the Budget, etc. The following table brings out briefly the nature and extent of changes in the budget documents under performance budgeting as compared to the existing ones.

Existing Documents	Documents under Performance Budgeting
1. Economic Survey .. .. ..	Will continue, no change.
2. Budget Speech .. .. ..	Do
3. Budget of the Central Government in brief.	This will continue; but, to the extent changes are made in the arrangement and groupings of major heads, corresponding changes will, of course, be made here.
4. Explanatory Memorandum to the Budget.	It is a very useful and important document and will have to continue. But, in as much as performance budget is a comprehensive financial and work plan of Government, <i>Prima-facie</i> some of the information now being given in this document, may, perhaps, be unnecessary. However, this is a matter for detailed study and pending such a study, it may continue as now.
5. Demands for Grants .. ..	Under the new technique, there will be the main budget on performance basis as illustrated in Appendix I. The Demands for grants or the Appropriation structure will be separate. Its structure will, however, undergo some changes. There would be, for example, modifications corresponding to the changes in the major and minor heads of account as also under the primary units of appropriation.
(a) Introductory note on each Ministry.	
(b) Parts I and II of Demands for Grants	
(c) Notes on Demands for Grants	
(d) Notes on Important Schemes	

Existing Documents	Documents under Performance Budgeting
	The structure of accounting presentation and Demand proper is illustrated in Appendix III A.
(e) Important new items of expenditure (non-plan).	In the performance budget, since details would be given in a comprehensive manner, there will be no need for the items listed in items (c) to (g) in Col. 1.
(f) Schedule I—Plan Expenditure	
(g) Schedule II—Details of provision under 'Pay of Officers' and 'Pay of Establishment.'	
6. Demands for Grants Part III (for Departmental use only).	This may continue with such changes in the account heads as are brought about.

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**ACCOMPANIMENT 'B'**

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**RESEARCH STUDY**  
ON THE  
**APPLICABILITY OF PERFORMANCE BUDGETING**  
IN FORMULATING AND PRESENTING  
BUDGET ESTIMATES  
*FOR*  
**THE PUBLIC WORKS DEPARTMENT,**  
**GUJARAT STATE**  
*BY*  
**PROF. G. R. KULKARNI**  
**&**  
**PROF. JOHN DEARDEN**

**INDIAN INSTITUTE OF MANAGEMENT**  
**AHMEDABAD**



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## 1. OBJECTIVES AND THE SCOPE OF STUDY

1.1. The principal objective of the study is to analyse the present practice in respect of budgetary procedures in formulating and presenting the budget estimates of the Public Works Department, Gujarat State.

1.2. A substantial part of the expenditure included in the budget of the Public Works Department relates to capital projects. It is, therefore, proposed to analyse more deeply the appropriation and control practices used in one such capital project. The project that has been selected in consultation with the officers of the Public Works Department is : "Multi-purpose Projects-Scheme 311—Ukai Project". Comments in general will also be offered about the applicability of the findings in respect of the Ukai project to the other items included in the budget of the Public Works Department as a whole.

1.3. The capital project sector was also selected by us as an area of study for the following reasons :

- (a) Since more than 30 per cent of the Government's spending is believed to be on capital projects, adequate control over these expenditures is vital;
- (b) It is generally believed that present control techniques over this kind of expenditure are somewhat primitive and for the most part ineffective; and
- (c) Modern budgetary control techniques for controlling capital expenditure are available and have already proved successful elsewhere.

1.4. The Ukai Project was selected by us as the specific project for study because :

- (a) It is typical of capital projects being undertaken in India. Consequently, any conclusions that we reach on this project should have wider applicability; and
- (b) The project site was close to our location and is controlled from Ahmedabad.

## 2. PERFORMANCE BUDGETING—BASIC GUIDE LINES

2.1. We visualise a change-over from traditional methods of budgeting to a system of performance budgeting, because :

- (a) It provides a more intelligible presentation to the reader including the legislator responsible for voting on the proposed expenditure, and
- (b) It provides an effective control tool in the hands of various levels of management responsible for the activities of the group of employees which they supervise.

2.2. Following from the preceding paragraph, it could be said that effective control techniques for capital projects involve :

- (a) The presentation of the proposed project in such a way that the decision-making body can intelligently decide whether or not to approve the proposal, and
- (b) Once approved, control over expenditure should be exercised in such a way that :
  - (i) Cost variances from the approved project are reported back to the controlling body as soon as they occur;
  - (ii) Changes in the total magnitude of expected expenditures are reported back to the controlling body as soon as they occur; and
  - (iii) Changes in the magnitude of the task to be done are reflected in allowable cost.

2.3. In this view of the matter, probably, the most ineffective way of controlling the capital investment project is by annual appropriation. First, the total cost of the project is not presented to the decision-making body. Second, accomplishment is never related to the cost because the only thing being controlled is the expenditure within the time period. Hypothetically, it would be possible, for example, for a construction project to complete half of what was expected while spending the full appropriated amount. Yet, this would not be indicated as unfavourable.

2.4. Therefore, effective control over capital projects is ensured by periodically comparing actual expenditures for what has been accomplished with the budgeted cost of these accomplishments. In other words, actual expenditures are compared to *accomplishments* and not to *elapsed time*.

2.5. In the following pages, an attempt is made to test the present budgetary and control practices for the Ukai project.

### 3. THE UKAI PROJECT

3.1. Ukai is the name of a village which is to be the site for the construction of the Ukai Multi-purpose Project. The project is to be constructed on the river Tapi and aims at the overall development of the lower Tapi basin. The proposal is to construct an earth-cum-masonry dam, 16,164 ft. long (13,193 ft. of earth dam and 2,970 ft. of masonry dam), which will bring into existence a reservoir of water which would otherwise have flown into the sea. The storage capacity of the reservoir will be 8,490 million cubic meters. It is also proposed to construct a spill-way and a power house for generating electricity and a canal system that will take the water from the reservoir to various parts in South Gujarat.

3.2. The project was cleared by the Planning Commission in August 1961 and the State Government has accorded administrative approval for Rs. 61.2 crores in February 1963.

3.3. The project is situated in an adivasi area. Due to the reservoir, a large area will be submerged and as a result people from this area will have to be rehabilitated. The project also envisages rehabilitation of these people in well-laid out villages having facilities of school, water supply, approach roads etc. It is also proposed to train young people from the affected areas in new trades such as smithy, carpentry, masonry, etc.

### 4. BUDGET ESTIMATES AND CONTROL PROCEDURES AT UKAI

4.1. The budget estimates in respect of Ukai project as presented to the State Legislative Assembly for 1966-67 are reproduced in Appendix 'A'. Other information furnished to the legislators on the Ukai project through Notes included in the "Development Programmes for Gujarat State" in respect of each of the year 1961-62 to 1966-67 is reproduced in Appendix 'B'.

4.2. Since, by and large, this is the only information that is made available to the legislators, it is readily apparent that the Legislative Assembly, as a decision-making body, cannot intelligently decide whether or not the proposals for approving the demands for grants should be considered favourably, on merits. A sequential reading of the information furnished from year to year would indicate that it does not provide a basis either for a review or for an intelligent questioning on the actual performance as compared with the promised performance at the time of seeking approval to the demand for grants.

4.3. A budget is indeed an agreement, so to say, between the legislative body which agrees to provide the funds and the executive agency which agrees to give a certain performance of work in return. To the extent to which it is not possible for the legislative body to get an accurate appraisal of the performance as promised, the system is defective.

4.4. The first stage in the formulation of the budget according to the present practice is the granting of administrative approval to the project as such by the State Government and the Planning Commission. The Ukai Project was conceived as a result of a study made by the Central Water & Power Commission in the late 50's. Administrative approval was accorded on the basis of the recommendations of the Central Water & Power Commission as follows :

	In lakhs of Rs.
1. Unit I—Dam and Appurtenant Works ..	3382.58
2. Unit II—Main Canal & Branches .. ..	1160.55
3. Unit III—Hydro-electric Installation :— ..	
(a) Civil Works .. .. .. ..	313.75
(b) P-Production .. .. .. ..	626.30
(c) T-Transmission .. .. .. ..	589.77
GRAND TOTAL .. .. .. ..	6072.95

A detailed break-down with regard to Unit I above is included as Appendix 'C'. Detailed break-downs in respect of Unit II and III are also available but for the purposes of this study, they are excluded since work in relation to Units II and III has not yet begun in right earnest.

4.5. The grant of administrative approval for the project has the effect of communicating to the Public Works Department that Government are committed over a period of time to ensure that all work envisaged in the administrative sanction is completed by a certain scheduled target date. The overall administrative approval is broken down into detailed administrative approval from time to time, on an annual basis, depending upon :

- (a) The estimate of the Public Works Department themselves as to the amount of work they can handle in the following year; and

- (b) The financial resources that are available in relation to the needs.

At the time of granting detailed administrative approval in stages Government takes into account the total expenditure likely to be incurred on the execution of the total task involved in the administrative approval under consideration as well as the expenditure likely to be incurred in the respective financial year beginning from the year in which the detailed administrative approval is granted. At this stage, certainly a link does exist between the amount of expenditure that is authorised and the volume of task that is expected to be completed as a result of the incurring of this expenditure. The divergence between the two begins when the process of the actual implementation of the budgeted task is taken in hand.

**4.6. The hierarchy for the purposes of the Ukai Project, in the Public Works Department, is given as follows :**

Secretary P.W.D.

:  
:  
:  
:  
:

Joint Secretary Multi purpose projects

Other Engineers of other projects	Chief Engineer Ukai Project	Deputy Secretary	:
:	:	:	:
:	:	:	:
:	:	Secretariat	
Subordinate formations	:	(Administrative)	
:	:	:	:
Supdt. Engr. (Civil Works)	Chief Accts. Officer	Supdt. Engr. (Mechanical)	Supdt. Engr. (Surat)
Ex. Engr. (Stores)	—Ex. Engineer	Ex. Engr.	
Research Officer	(Auto workshop)	(Design)	
Ex. Engr. (Colonies)	—Ex. Engineer		
Ex. Engr. (Earth work)	(Auto Workshop major)	Ex. Engr.	
Ex. Engr. (Masonry Dam)	—Ex. Engineer	(Works)	
Collector (Acquisition)	(Civil construction)		
Labour Officer			

Each of the Executive Engineers has a communication indicating the detailed administrative approval accorded by reference to the work which falls in his jurisdiction. Each Executive Engineer, therefore, frames detailed budget estimates in the light of this approval indicating the amount of work he can handle during the following financial year and the amount of financial sanction he would cover out of the total administrative sanction communicated earlier. The draft budget estimates of the respective Executive Engineers are discussed at the level first of the Superintending Engineers concerned and thereafter at the level of the Chief Engineer and finally adopted for being presented to the Legislative Assembly. The manner in which the estimates ultimately come to be presented to the Legislative Assembly has already been seen from Appendix 'A'. The fact that these estimates are arrived at on the basis of the breakdown furnished by the Executive Engineers themselves shows that details with regard to the financial expenditure proposed and the physical performance promised are available at the stage of budgeting in the offices of the Public Works Department at Ukai, though not passed on further to be included as a part of the budget document as adopted.

4.7. After the Legislative Assembly has approved the budget estimates the Chief Engineer and the Superintending Engineer, within the limits of the powers delegated to them, accord technical sanctions authorizing Executive Engineers to take up the work for which they had budgeted at the time of framing the annual estimates. The manner in which control is exercised on the Executive Engineer to ensure that he does not spend more than what he had budgeted for and thereby accomplishes the task within the approved cost, is through the maintenance of a Works Register maintained in the office of the Executive Engineer. In this Register, the progress of expenditure is recorded under detailed accounting heads and the physical progress is also recorded correspondingly. The Register is expected to be scrutinized by the Accountant General during his local inspection and in case it appears that the estimated amount is likely to exceed or already exceeds the amount sanctioned in relation to the achievement of a particular physical target, the expenditure is not approved unless a revised estimate is framed and sanction of the competent authority is obtained. If the revised estimates are found to exceed a certain percentage that has been prescribed, revised administrative approval becomes necessary and a revised technical sanctions cannot be accorded until such revised

administrative approval is given by the competent authority. No clearance from the Legislature is, however, required at this stage.

4.8. The officers of the Public Works Department believe that this method of exercising control over expenditure in relation to the physical targets is adequate from the point of view of ensuring that a situation does not arise whereby the financial appropriations are exhausted, but physical targets are not realised.

4.9. In actual practice, however, this only means that a record is available in the office of the Ukai Project, by reference to which officers of the Project can explain the reasons for exceeding certain estimates or for not achieving certain targets, if such explanation is called for. The Accountant General's concern is to see whether a certain amount of expenditure that has been debited in the Works Register is covered by an appropriate sanction from a competent authority. The Accountant General does not raise any question as to the exceeding of the budget estimates in relation to the promised performance, provided there is a sanction to the incurring of the expenditure. The sanctions are accorded internally by the officers of the Project themselves, in consultation with the financial adviser and the effect of this does not get reflected in the budget estimates presented to the Assembly in a form in which the reasons and consequences of the sanctions could be readily appreciated.

4.10. As in the case of other large multi-purpose projects, the Ukai Project also reports to the Ukai Control Board. Meetings of the Board are held every quarter primarily with a view to expediting decisions on which inter-departmental and inter-government consultation is required. The members also review the progress of the project during the past three months. Members are expected to comment on lapses and achievements in a general way so as to provide guidance to the Chief Engineer who is head of the Project. In order to enable the Board to appreciate the performance during the period of review, the project authorities prepare certain statements and charts to be discussed at every meeting of the Board. These are as follows :

- (a) A statement showing under major sub-heads the provision in administratively approved estimates, the amount of expenditure for which technical sanction has been accorded, expenditure under each sub-head during the last financial year and similar expenditure up to the date of reporting during the current financial year. This state-

ment indicates the trend of financial expenditure and there is no reference in it to performance of the assigned task.

- (b) The second statement as laid before the Control Board contains "Important basic data of the Ukai Project". This gives a breakdown of the important categories of tasks to be performed before the Project could be considered as having been completed. Physical targets in respect of each of the tasks are also indicated. The Statement does not enable the Board to comment on the performance of the officers of the Project during the period of review since it only tells the reader the total volume of work involved in the Project which is due for completion in 1970's.
- (c) The Board is also provided with a bar chart showing under similar sub-heads, the approved expenditure envisaged for the total project, the start and finish dates under each of the sub-heads and the percentage of expenditure incurred under each of the sub-heads from the starting date until the date of report. A further breakdown of the anticipated expenditure in every quarter during the current financial year and the actual expenditure incurred during each of the quarters under each sub-head are also furnished. This chart enables the Control Board Members to see the progress of the expenditure in relation to the target date by which the total amount has got to be spent. Once again, this does not give one an idea about the physical targets to be achieved and whether the expenditure is in line with the task so far completed.
- (d) Another bar chart showing the construction programme and progress is also made available to the Control Board. In this chart, again, details are furnished under a few major sub-heads indicating the total quantity of work to be done under each sub-head and the percentage of the quantity that has been scheduled for performance over the total period of the Project and the percentage that has been achieved until the date of reporting. It could be said that in some way this chart and the earlier chart give a rough idea about the percentage of the physical targets achieved and the percentage of the expenditure target incurred. This, however, is not adequate :

- (i) for the purpose of making a worthwhile comparison, and
- (ii) for utilising it as control device in measuring the performance of the respective members of the team.
- (e) The Control Board also gets from the project authorities another chart prepared by the Cost Cell in the project giving a comparison between the actual rate at which cost is being incurred on different jobs and the estimated rate at which cost was proposed to be incurred. This again is a rough approximation and does not provide actionable data.

Copies of these statements and charts are enclosed as Appendix 'D' (i) to (iv).

4.11. The system as outlined above gives rise to the following observations :

- (a) Even though, administrative approval has been accorded to the project by Government, the total cost of the project as such has not been presented to the legislature in a manner in which the legislature can realise the total financial implications. In other words, there is no indication of the phasing of the expenditure over the period of the project and members of the legislature cannot readily tell what would be the financial liability in respect of the project from year to year.
- (b) Decisions to approve the project or to postpone parts thereof are taken by the Legislative Assembly without realising the implications either in respect of the specific project or in relation to the other projects that may be competing with this project for financial assistance.
- (c) The information which the legislature gets about progressive expenditure does not enable members of the legislature to compare it with progressive achievement and ask for explanations and clarifications for deficiencies, if any.
- (d) Internally, that is within the project itself, the budget is not being used as a control device. Firstly, the information comes to the knowledge of the officers too late for taking any corrective action and secondly the form in

which it comes does not enable the controlling authorities to assign responsibility for poor performance, if any.

- (e) The entire system gets expenditure oriented and a tendency develops to ask for financial provision in excess of the requirements as a measure of safety. As a result, whereas all expenditure incurred is meticulously supported by sanctions or authorisations, there is an air of slackness because no one is going to be called upon to explain if his achievement does not tally with the work for which he has budgeted. Explanations for savings and excesses are too general and are readily accepted. The utility of the budget as a control tool is, therefore, totally lost.
- (f) What the individual Executive Engineer estimates is with reference to the task that lies ahead of him for the coming financial year. No attention is paid to the balance of the task that falls under the particular sub-head which will have to be done in the subsequent financial years. There is no evaluation of the financial implications of this portion of the task. As a result, no one, not even the Chief Engineer incharge of the Project, is able to say how much additional finances would be required for completion of the total project over and above what was budgeted for at the time the original budget estimates were framed. The legislature, therefore, proceeds on the assumption that a certain percentage of the total expenditure of the entire project having been incurred by the date of reporting, the balance of the expenditure to be incurred is the difference between the project cost estimate and the actuals incurred so far; whereas since performance has not kept pace, in reality the balance is a substantially larger amount than this figure based on impressions. This again is a defective practice so far as the decision-making on the allocation of resources among alternative projects is concerned.

## 5. REQUIREMENTS OF AN ALTERNATIVE SYSTEM

5.1. If, in respect of a capital project, the budget is to be a meaningful document for the legislature as well as a control tool in the hands of the Chief Engineer, one of the ways to proceed would be to breakdown the total Ukai Project into specific work packages that have a definite beginning and a definite physical completion point.

The cost and completion data should be estimated for each of these work packages and the endeavour should be to relate these items of cost to accomplishment and the appropriate budgeted time also to the accomplishment. This would make control during the course of the project possible. It would make it immediately evident if time or cost goals are likely to be met and it would provide a basis for adjusting the cost for changes in the specifications of the tasks to be performed. It would also enable one to appreciate changes in the costs and estimates on account of general factors like rising prices, rising wage rates, devaluation, and so on.

5.2. The ideal way to identify these specific work packages would be to relate them on a pert-cost network diagram. Such a diagram would give one a representative idea about the various tasks that have to be performed in furtherance of the completion of the project and which of the tasks are to be performed simultaneously and which sequentially. Such a diagram by itself would enable the Chief Engineer to bring greater order in his work and to deploy personnel and other resources so as to keep them fully employed and to reduce wastage to the minimum. In other words, it would function as an excellent cost control device, the basic contents of which can be indicated in an intelligible manner to a layman like the legislator concerned with granting approval and watching the progress and not with the details of its implementation. Progressively, officers incharge of projects like Ukai, will develop more and more sophisticated pert-cost network diagrams for the projects under their control. When this is done identification of work packages to which costs and performance can be related would not be a difficult task. However, until such analysis is attempted, it would be necessary for us to have a look at other alternative possibilities of identifying work packages which may not necessarily be as satisfactory as those determined by the pert-cost-network diagrams.

5.3. There are some other constraints within which we have to operate in making recommendations for a change-over to a performance type of budgeting. One is the manner in which accounting records are maintained at present and the familiarity which the existing staff has with the present manner of maintaining accounting records. Another is the requirement of the Audit Code. Still another is the manner in which financial transactions are recorded and reported upon in other departments of Government with which the department under consideration will have points of contact. Finally, there is the

constraint of the budget documents becoming too bulky and unwieldy if several details in respect of every major item of the expenditure were to be furnished to every Legislator.

5.4. According to the present practice prescribed by the Audit Code, estimates are presented under major heads, corresponding minor heads and detailed heads. The Audit Department is concerned with getting a satisfactory accounting of expenditure under the respective major heads. To some extent the minor heads can be altered to suit the requirements of departmental conveniences; and the detailed heads under which the basic data in respect of major head is grouped together are entirely left to be decided upon by the heads of departments in the light of their requirements. In other words, the Chief Engineer and/or the Secretary of the Public Works Department can, mutually in consultation with the Accountant General, formulate such detailed heads as they may wish for the purposes of grouping data under major heads. It is, therefore, open to the heads of departments to choose detailed heads corresponding to the accounting heads that would be required for a performance budget and the Audit Code would not come in the way of such a change-over.

5.5. In changing-over from the traditional method of budgeting to a new type, a great deal of attention must, however, be paid to the other constraints referred to in para. 5.3 above.

## 6. PROPOSED PRESENTATION OF THE UKAI PROJECT ESTIMATES ON A PERFORMANCE BUDGET BASIS

6.1. It has already been pointed out that the ideal work packages would be thus corresponding to the units of work appearing on a pert-cost network diagram. Pending the availability of such data, a beginning in the direction of performance budgeting can be made by identifying work units which correspond to the data already available in the Ukai Project Office and with which the staff of the Ukai Project is sufficiently familiar. The change-over would, therefore, mean that whereas the available information within the project was being used in some way as a crude control system, the change-over would bring about a more noticeable and therefore a more consequential relation between the performance data and financial outlay. Progressively as officers at different levels in the department get accustomed to the idea of reporting not only on the financial outlay but also performance in relation to that outlay simultaneously at the time of submitting budget estimates and periodical reviews, the transition towards a fully perfected performance budgeting would be more easy. In other words,

our first basic recommendation would be to continue to present the budget estimates under major heads as they are being presented now and make a beginning by changing the presentation under the detailed heads. For changing the presentation under the detailed heads, in the initial stages, the work units to be utilised should be the work units with which the staff of the Public Works Department within the project is sufficiently familiar.

6.2. The presentation of information under detailed heads under the existing practice is apparent from a perusal of statements under 98—Capital outlay on multi-purpose River Schemes in Appendix 'A'. We would suggest a change-over in the manner of this presentation somewhat on the following lines :

#### DETAILED ACCOUNT No. 98

#### CAPITAL OUTLAY ON MULTI-PURPOSE RIVER SCHEMES

The following multi-purpose river schemes are in progress as on the date of the presentation of the budget document :

- (i) Construction of Ukai Project (Scheme No. 311);
- (ii) Construction of Kadana Reservoir Project for Mahi Valley Scheme, District Panchmahals & Kaira (Scheme No. 314);
- (iii) Construction of Narmada River Project, Districts Baroda and Broach (Scheme No. 312);
- (iv) Dharot (Sabarmati) River Project, District Ahmedabad (Scheme No. 318).

The total capital outlays budgeted for on the respective projects under the major head of account-98 are : Rs. 528.70, Rs. 13.00, Rs. 47.3 and Rs. 10.00 (in lakhs of rupees). Total : Rs. 598.30 lakhs.

Detailed estimates in respect of these provisions are given below :—

##### *Construction of Ukai Project (Scheme No. 311)*

The Project is under construction on the river Tapi from 1963. The expected date of completion of the Project is 1973. The Project envisages construction of an earth-cum-masonry dam 16,164 ft. long (13,193 ft. of earth dam and 2,970 ft. of masonry dam), which will bring into existence a reservoir of water of 8,490 million cu. mts. capacity. It is also proposed to construct a power house for generating electricity and a canal system that will take the water from the reservoir to various parts in South Gujarat. Administrative approval was accorded to the Project in February 1963 for Rs. 61.2 crores.

The detailed estimates of expenditure are as follows :

**UNIT I—DAM AND APPURTENANT WORKS**

Letter Code No.	Detailed Head of account (including sub-heads, if any)	Total estimated cost 31-3-66	Probable expr. upto	Budget estimates 1965-66	Revised estimates 1965-66	Budget Estimates 1966-67
			Rs. in lakhs			
A	Preliminary		19.00			
B	Land:					
	(i) Acquisition of land for submergence					
	(ii) Shifting and rehabilitation of villages					
	TOTAL	440.58				
C.I	Works (Earth dam)					
	(i) Excavation of cut-off trench					
	(ii) Drilling and grouting below C.O.T. B.d					
	(iii) Concrete diaphragm					
	(iv) Earth fill					
	TOTAL	965.71				
C.II	Works (Masonry Dam)					
	(i) Excavation for foundation					
	(ii) Masonry					
	(iii) Concrete					
	(iv) Gates					
	TOTAL	1,663.55				

<b>D</b>	<b>Regulators</b>	.	.	.	.	.	.	.	.	.	.	60·00
<b>G</b>	<b>Bridges</b>	.	.	.	.	.	.	.	.	.	.	25·00
<b>K</b>	<b>Buildings:</b>											
	(i) Officer's residences	.	.	.	.	.	.	.	.	.	.	
	(ii) Other residences	.	.	.	.	.	.	.	.	.	.	
												<b>TOTAL</b>
												72·38
<b>M</b>	<b>Plantation</b>	.	.	.	.	.	.	.	.	.	.	1·00
<b>O</b>	<b>Miscellaneous</b>	.	.	.	.	.	.	.	.	.	.	71·93
<b>R</b>	<b>Communications</b>	--	.	.	.	.	.	.	.	.	.	57·57
<b>P</b>	<b>Maintenance (during construction) 1% on works outlay</b>	.	.	.	.	.	.	.	.	.	.	25·85
<b>6</b>	<b>Special Tools &amp; Plant</b>	.	.	.	.	.	.	.	.	.	.	75·00
<b>II</b>	<b>Establishment</b>	.	.	.	.	.	.	.	.	.	.	194·37
<b>III</b>	<b>Tools &amp; Plant</b>	.	.	.	.	.	.	.	.	.	.	31·24
<b>IV</b>	<b>Sus nse</b>	.	.	.	.	.	.	.	.	.	.	
												<b>TOTAL</b>

## J—Notes

### A—*Preliminary expenses*

Under this head are debited costs of preliminary surveys, exploratory surveys, aerial surveys etc. These have been substantially completed and the provision for the year under consideration is in respect of gauge observations, silt data collection, exploratory drilling, borrow area investigations, laboratory testings etc. Since these expenses were not foreseen in the early stages of the project expenditure under this head has already exceeded the amount for which administrative approval was originally given. The total expenditure under this head by the time the project is completed is likely to be Rs. . . . .

### B—*Land*

The total land to be acquired for submergence is 6,55,000 acres. Out of this . . . . acres has already been acquired and measures for acquiring the balance are in progress. Out of 13,175 acres programmed for acquisition this year, 4,113 acres have been acquired, 15 awards totalling 9,032 acres are likely to be finalised between December 1965 and March 1966. Their estimated value is Rs. 26.87 lakhs. Next year, the budget provision is in respect of the acquisition of 19,970 acres of land for submergence.

The number of villages to be shifted and rehabilitated is 99. Work in relation to rehabilitation of . . . . villages has been completed and 22 more villages are proposed to be rehabilitated in the coming year.

### C—*Works*

The estimated units for the total project task in respect of the sub-heads under earth dam and masonry dam are given in the following table. The units completed up to the date of reporting and the units included in the budget estimates for the year under consideration and the rate at which expenditure has been provided are also given in the following table :

Item	Total estimated units	Units completed upto date of reporting	Unit Budgeted for 1966-67	Rate	Total Rs. for 1966-67
<i>1. Earth Dam</i>					
1. Excavation of cut off trench .. ..	61·5 M. Cft.				
2. Drilling and grouting below C.O.T. bed ..	1,20,172 R. Ft.				
3. Concrete Diaphragm ..	1,97,950 Sft.				
4. Earth fill .. ..	851·0 M. Cft.				
<i>2. Masonry Dam</i>					
1. Excavation for foundation .. .. ..	59·3 M.Cft.				
2. Masonry .. .. ..	43·4 M.Cft.				
3. Concrete .. .. ..	6·4 M.Cft.				
4. Gates .. .. ..	54,921 Sft.				

#### D—Regulators

The provision is for the cost of the head regulator on the left bank main canal and the extra cost of widening the head regulator in the Kakrapar right bank canal. The work has been given out on contract and is expected to be completed by 31-3-1967.

#### G—Bridges

Two bridges proposed in the Project Report have been fully completed and there is no budget provision for the year under consideration.

#### K—Buildings

The total number of Officer's residences and other residences to be completed were 85 and 1,122 respectively. Of these, 73 officer's buildings have been completed and 728 other buildings have also been completed. The provision proposed this year is for 5 officer's residences and 197 other residences.

#### M—Plantation

The expenditure under this head is in respect of planting avenues of trees, setting out parks in the vicinity of the dam and for maintaining them. Only a token provision of Rs. 8,000/- has been proposed this year.

**O—Miscellaneous**

Under this head are included, provisions for maintaining and working of Jeeps, and Trucks, protected water supply, lighting and sanitary arrangements, medical aid, education, up-keep of hospital and other welfare work. A detailed breakdown of the expenditure in relation to the units of work is available separately.

**R—Communications**

The total approval under this head is for the construction of dam earth link and the sidings to the quarry site, 98% of the work has been completed and the provision of Rs. 1.59 lakhs under this year's budget is for asphalt carpet on the approach road 6 furlongs in length.

**S—Special Tools & Plants**

The expenditure proposed under this head is for the acquisition of 39 French tractors, 1 Dumper, 4 Shovels, 45 Beaver Tippers and transfer of equipments from other Projects. These purchases and transfers are considered necessary for the execution of the tasks specified under 'C' works above.

**II. ESTABLISHMENT**

The proposed expenditure on work charged establishment has been taken at 6½% of the expenditure budgeted for in 'C' Works above. This is the approved rate for estimating expenditure on establishment. The expenditure on other establishment debited here includes salaries of officers, clerical establishment and headquarters establishment, the relative strengths of which last year and this year are given below :

\* \* \* \* \*

(Similar details will be furnished in respect of the other three Projects included under the detailed account No. 98)

6.3 It is readily conceded that the method of presentation proposed above does not amount to a thorough change-over from the expenditure oriented approach to a performance based approach. However, this is because a complete change-over to a performance based approach is wellnigh impossible at this stage in the Public Works Department. In our opinion, the system outlined above will amount to a first stage in such a change-over. It will not be impracticable inasmuch as the data that is required for presenting the information in the form which we have proposed above, is already

available in the office of the Public Works Department. Once we get the project authorities to include this data in the formal budget estimates and once we succeed in getting them accustomed to the idea that at some stage of the game they have to account for the performance in relation to the financial outlay and the data for indicating this comparison has been furnished in the budget document itself, subsequent steps for preparing a more thorough performance budget would be substantially easier.

6.4. The ideal to which we have to travel and the manner in which we should aim at utilizing the budget not only as a document for communicating the executive's side of the bargain, for which the Legislature has provided the funds, but also as an internal control device for accountability has been indicated in the preceding section as well as in section 2 of the report. We believe, however, that a transition to this stage should be accomplished through a gradual adoption of the new procedures instead of a sudden switchover which will throw the existing system out of gear.

One of the first changes that can be made soon after the system is introduced would be to distinguish between works that are entrusted to contractors and works that are being done departmentally, and to provide for the expenditure on the respective items under different accounting heads. More elaborate methods for selecting detailed units for which the respective officers can be held accountable, can be devised as work proceeds further. An important point may however be made at this stage and that is that the proposed attempt to exercise a more effective control over expenditure should not be confused with an attempt to interfere with the exercise of delegated powers of the authorities administratively incharge of executive functions.

## 7. THE BUDGET OF THE PUBLIC WORKS DEPARTMENT

The budget of the Public Works Department of Gujarat has already been reproduced in Appendix 'A'. It is seen therefrom that a substantial part of it relates to different projects similar to Ukai. The system proposed for Ukai is applicable with minor modifications to each of the items of expenditure listed under different major heads in Appendix 'A'. The identification of units of work and relating them to financial targets can also be attempted on similar lines in the initial stages.

## APPENDIX 'A'

### BUDGET ESTIMATES OF THE P.W.D. AS PRESENTED TO THE GUJARAT STATE LEGISLATURE

#### *Summary by major head*

Major Head 1	Accounts 1964-65 2	Budget Estimates 1965-66 3	Revised Estimates 1965-66 4	Budget Estimates 1966-67 5
	Rs.	Rs.	Rs.	Rs.
<b>A. Expenditure on Revenue Account</b>				
<b>42. Multipurpose River Schemes</b>				
Charged .. ..	—	—	—	—
Voted .. ..	3,90,498	3,20,000	2,92,000	2,88,000
<b>43. Irrigation, Navigation, Embankment &amp; Drainage Works (Commercial)</b>				
Charged .. ..	—	—	—	—
Voted .. ..	2,27,804	6,33,000	6,30,000	5,99,000
<b>44. Irrigation, Navigation, Embankment &amp; Drainage Works (Non-Commercial)</b>				
Charged .. ..	—	—	—	—
Voted .. ..	65,81,111	1,45,39,000	1,38,44,000	1,52,76,000
<b>50. Public Works</b>				
Charged .. ..	8,386	—	11,000	—
Voted .. ..	1,59,21,042	2,31,56,000	1,96,21,000	1,16,14,000
<b>71. Miscellaneous</b>				
Charged .. ..	—	—	—	—
Voted .. ..	21,68,122	80,45,000	56,02,000	52,00,000
<b>TOTAL A—Expenditure on Rev. Account</b>				
Charged .. ..	8,386	—	11,000	—
Voted .. ..	2,52,88,577	4,66,93,000	3,99,89,000	3,29,77,000

\*Reproduced from "Detailed Estimates of the Fourth Five Year Plan Schemes for the year 1966-67. Public Works Department, Gujarat—as presented to the Legislature under article 202(i) of the Constitution.

APPENDIX 'A'—*contd.*

1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.
<b>B. Expenditure on Capital A/c.</b>				
<b>98. Capital outlay on Multi-purpose River Schemes</b>				
Charged ..	—	—	—	—
Voted ..	2,61,33,413	4,83,56,000	4,82,15,000	5,99,99,000
<b>99. Capital Outlay on Irrigation, Navigation, Embankment and Drainage Works (Commercial)</b>				
Charged ..	60,180	—	84,000	—
Voted ..	5,52,38,639	5,34,68,000	5,06,45,000	3,79,75,000
<b>100. Capital Outlay on Irrigation, Navigation, Embankment and Drainage Works (Non-Commercial)</b>				
Charged ..	—	—	1,10,000	—
Voted ..	96,73,945	1,83,51,000	1,51,57,000	1,55,43,000
<b>101. Capital Outlay on Electricity Scheme</b>				
Charged ..	—	—	—	—
Voted ..	2,50,166	2,22,000	2,22,000	1,85,000
<b>103. Capital Outlay on Public Works</b>				
Charged ..	2,40,240	—	85,000	—
Voted ..	2,98,26,719	4,35,38,000	4,40,07,000	4,19,40,000
<b>110. Capital Outlay on Ports</b>				
Charged ..	—	—	—	—
Voted ..	59,91,935	60,68,000	79,88,000	55,85,000
<b>Total B—Expenditure on Capital Account</b>				
Charged ..	3,00,420	—	2,79,000	—
Voted ..	12,71,14,817	17,00,03,000	16,62,34,000	16,11,28,000

APPENDIX 'A'—*contd.*

1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.
C—Expenditure Under Debt Heads				
Q—Loans and Advances by State/Union Territory Governments				
Charged ..	*	—	—	—
Voted ..	—	1,42,65,000	1,69,16,000	22,72,000
Total C—Expenditure under Debt Heads ..	—	1,42,65,000	1,69,16,000	22,72,000
Charged ..	3,08,06	—	2,90,000	—
GRAND TOTAL—Public Works Department ..	15,24,03,394	23,09,61,000	22,31,39,000	19,63,77,000

\*Details are included in the Major Head Total.

### *Multipurpose River Schemes*

42—MULTIPURPOSE RIVER SCHEMES Schemes in Five Year Plan	Accounts 1964-65	Budget Estimates 1965-66	Revised Estimates 1965-66	Budget Estimates 1966-67
1	2	3	4	5
	Rs.	Rs.	Rs.	Rs.
C—Other Revenue Expenditure Investigation in Multipurpose River Schemes Preliminary Expenses.				
<i>Establishment :</i>				
Continuance of the Hydro-Meteorological investigations in Tapi & Sabarmati Catchments. (Scheme No. 332) ..		8,000	5,000	5,000
<i>Miscellaneous :</i>				
Maintaining and observing discharges of River Sabarmati (Scheme No. 332) .. .. ..		12,000	12,000	12,000
Survey and investigation of Punasa Barwaha and Harinphal Projects on river Narmada (Scheme No. 312) .. .. ..		2,00,000	2,00,000	2,00,000

## APPENDIX 'A'—contd.

1	2	3	4	5
Survey and investigation of Narmada Project (Scheme No. 312) .. .		1,00,000	75,000	70,000
Flood warning to wireless Station at Dharoi (Scheme No. 336) .. .. *		—	—	1,000
TOTAL Voted ..	3,90,498	3,20,000	2,92,000	2,88,000
Total, 42-Multipurpose River Schemes .. ..	3,90,498	3,20,000	2,92,000	2,88,000

+Estimated cost—Rs. 1,364.

### 98—Capital Outlay on Multipurpose River Schemes

98—CAPITAL OUTLAY ON RIVER SCHEMES Schemes in Five Year Plan	Accounts 1964-65 Rs.	Budget	Revised	Budget
		Estimates 1965-66 Rs.	Estimates 1965-66 Rs.	Estimates 1966-67 Rs.
1	2	3	4	5
<b>I—SUMMARY</b>				
Capital Outlay in Multi- purpose River Schemes.				
<b>PRODUCTIVE</b>				
I—Works-Schemes in Five Year Plan.. ..	11,736	9,69,000	1,28,000	12,61,000
II—Establishment Schemes in Five Year Plan ..	28,007			
A—Ordinary .. ..		—	—	—
B—Special .. ..		29,000	29,000	37,000
C—Pensionary charges		1,000	1,000	1,000
III—Tools and Plant-Schem- es in Five Year Plan ..	(—)7,24,185			
A—Ordinary .. ..		—	—	—
B—Special .. ..		1,000	1,000	1,000
IV—Charges in England- Establishment Schemes in Five Year Plan .. ..		—	—	—
V—Suspense-Schemes in Five Year Plan .. ..	(—)79,371	—	—	—
VI—Receipts and Recoveries Schemes in Five Year Plan	(—)95	—	—	—
<b>TOTAL Productive ..</b>	<b>(—)7,63,908</b>	<b>10,00,000</b>	<b>1,59,000</b>	<b>13,00,000</b>

APPENDIX 'A'—*contd.*

	1	2	3	4	5
<b>UNPRODUCTIVE</b>					
I—Works-Scheme in Five Year Plan.. ..	2,29,06,551	442,03,000	4,50,44,000	5,33,78,000	
II—Establishment Scheme in Five Year Plan .. ..	23,54,101				
A—Ordinary Charged		—	—	—	—
B—Special		26,22,000	29,42,000	34,88,000	
C—Pensionary Charges Voted		98,000	1,13,000	1,31,000	
III—Tools & Plant Schemes in Five Year Plan .. ..	3,29,784				
A—Ordinary .. ..		4,33,000	3,31,000	5,03,000	
B—Special .. ..					
IV—Charges in England Establishment Schemes in the Five Year Plan .. ..		—	—	—	—
V—Suspense-Schemes in Five Year Plan .. ..	15,57,479				11,00,000
VI—Receipts and Recoveries Schemes in Five Year Plan .. ..	2,53,594		3,74,000		
<b>TOTAL Unproductive Charged .. ..</b>	<b>2,68,97,321</b>	<b>4,73,56,000</b>	<b>4,80,56,000</b>	<b>5,86,00,000</b>	
<b>GROSS TOTAL .. ..</b>	<b>2,61,33,413</b>	<b>4,83,56,000</b>	<b>4,82,15,000</b>	<b>5,99,00,000</b>	
<b>NET TOTAL .. ..</b>	<b>2,61,33,413</b>	<b>4,83,56,000</b>	<b>4,82,15,000</b>	<b>5,99,00,000</b>	

DETAILED ACCOUNT [ No. 98—CAPITAL OUTLAY ON MULTIPURPOSE RIVER SCHEMES I—WORKS Schemes in Five Year Plan	Estimated Cost	Probable Expenditure upto 31-3-1966	Budget Estimates 1965-66	Revised Estimates 1965-66	Budget Estimates 1966-67
1	2	3	4	5	6

**II—DETAILS****PRODUCTIVE**

1. Construction of Kadana ]

## APPENDIX 'A'—contd.

1	2	3	4	5	6
<b>Reservoir Project for Mahi Valley Scheme, District Panchmahals and Kaira (Scheme No.</b>					
314) 16,86,000 84,23,000 9,69,000 1,28,000 12,61,000					
<b>TOTAL, Works—</b>					
<b>PRODUCTIVE</b> 9,69,000 1,28,000 12,61,000					
<b>UNPRODUCTIVE</b>					
2. Construction of Ukai Project (Scheme No. 311) 61,20,02,000 11,26,26,000 3,63,07,000					5,03,49,000
3. Construction of Narmada River Project, Districts Baroda and Broach (Scheme No. No. 312) 41,41,43,000 [ 3,75,81,000 72,40,000					20,29,000
4. Dharoi (Sabarmati) River Project, Dist. Ahmedabad (Scheme No. 318) 15,25,000 3,28,000 6,55,000					10,00,000
<b>TOTAL, Works—</b>					
<b>UNPRODUCTIVE</b> 4,42,02,000 4,50,44,000 5,33,78,000					
<b>DETAILED ACCOUNT</b>					
No. 98—CAPITAL OUTLAY ON MULTIPURPOSE RIVER SCHEMES ESTABLISHMENT (SPECIAL)	Estimated Cost	Probable Expenditure upto 31-3-1966	Budget Estimates 1965-66	Revised Estimates 1965-66	Budget Estimates 1966-67
Schemes in Five Year Plan	Rs.	Rs.	Rs.	Rs.	Rs.
1	2	3	4	5	6
<b>Accounts 1964-65</b>					

**SUMMARY**

(i) Productive

APPENDIX 'A'—*contd.*

1	2	3	4	5	6
1. Irrigation Investigation Circle (Kadana) ..		28,007	29,000	29,000	37,000
TOTAL (i) Productive ..		28,007	29,000	29,000	37,000
(ii) Unproductive					
2. Ukai Project Circle ..		14,90,000	18,10,000	19,88,000	
3. Surat Irrigation Circle (Remodelling of KRBC Sub-dn.) ..		*		37,000	
4. Narmada Irrigation Circle .. ..		11,04,000	11,04,000	14,31,000	
5. Special Cell in Sachivalaya (PWD) for Ukai and Narmada projects.. .. ..		28,000	28,000	32,000	
TOTAL (ii) Unproductive	23,54,101	26,22,000	29,42,000	34,88,000	

## DETAILS

## (i) Productive

1. Irrigation Investigation Circle (Kadana) ..	4,000	3,600
(a) Pay of Officers ..	—	—
(b) Pay of Establishment .. ..	17,900	22,400
(c) Allowances Honoraria etc. .. ..	—	—
Travelling Allowances .. ..	2,000	2,000
Dearness Allowance ..	3,000	6,400
Other Allowances ..	100	600
(d) Contingencies .. ..	2,000	2,000
Total, Irrigation Investigation Circle (Kadana) ..	29,000	29,000
		37,000

\*BE 1965-66 Rs. 30,000 obtained by way of Section I New Item under "99" (New Item No. 155 Budget Memorandum for 1965-66). The classification is now however changed to '98'.

APPENDIX 'A'—*contd.*

## DETAILED ACCOUNT No. 98

CAPITAL PURPOSE	OUTLAY ON MULTI-RIVER SCHEMES	Accounts 1964-65	Budget Estimates 1965-66	Revised Estimates 1965-66	Budget Estimates 1966-67
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ESTABLISHMENT(SPECIAL)  
Schemes in Five Year Plan

1	2	3	4	5
DETAILS	Rs.	Rs.	Rs.	Rs.
<b>(II) Unproductive</b>				
<b>2. Ukai Project Circle</b>				
Pay of Officers ..	2,35,700			3,15,000
Pay of Establishment ..	8,27,200			10,38,000
Allowances, Honoraria etc.				
Travelling Allowance	63,200			75,000
Dearness Allowance ..	1,53,700			2,60,000
Other allowances ..	1,30,000			2,00,000
(d) Contingencies ..	80,200			1,00,000
Total Ukai Project Circle .. ..	14,90,000		18,10,000	19,88,000
<b>3. Superintending Engineer</b>				
Surat Irrigation Circle				
(a) Pay of Officers ..				4,000
(b) Pay of Establishment				23,000
(c) Allowances and Honoraria etc :				
Travelling allowance				3,000
Dearness allowance				4,000
House Rent & other allowances				1,000
(d) Contingencies ..				2,000
Total Surat Irrigation Circle .. .. *				37,000

\*B.E. 1965-66 Rs. 30,000 obtained by way of Section 1 New Item (No. 155 Plan) under "99 Irrigation etc." but now transferred to the Major Head "98-Irrigation etc."

APPENDIX 'A'—*contd.*

1	2	3	4	5
<b>4. Narmada Irrigation Circle</b>				
Pay of Officers	1,84,000		2,31,000	
Pay of Establishment	6,80,000		7,90,000	
Allowances and Honoraria :				
Travelling Allowance	60,000		75,000	
Dearness Allowance	1,00,000		1,80,000	
Other Allowances ..	25,000		80,000	
Contingencies ..	55,000		75,000	
Total Narmada Irrigation Circle ..	11,04,000	11,04,000	14,31,000	
<b>5. Special Cell in Sachivalaya, P.W.D. for Ukai and Narmada Projects:</b>				
Pay of Officers ..	17,000		22,500	
Pay of Establishment	4,000		4,500	
Allowances and Honoraria :				
Travelling Allowance	2,000		1,000	
Dearness Allowance	700		1,000	
House Rent and other allowances	2,300		2,000	
Contingencies ..	2,000		1,000	
Total, Special Cell in Sachivalaya PWD for Ukai and Narmada Projects ..	28,000	28,000	32,000	

## **APPENDIX B**

**EXTRACTS FROM "DEVELOPMENT PROGRAMMES FOR GUJARAT STATE" PUBLISHED ANNUALLY FOR ALL DEVELOPMENT PROJECTS AND MADE AVAILABLE TO MEMBERS OF THE LEGISLATIVE ASSEMBLY.**

### **1961-62**

"The project envisages the construction of a reservoir across the river Tapi and Ukai in Surat District which will provide storage to the Kakrapar canal system. The preliminary investigations on the project will be continued and completed during the year 1961-62 and the work of land acquisition will be accelerated. Work of foundation of earth dam in the portions between hills 1 and 2 and in portion of right bank saddle dam will also be completed. Foundation for the remaining portion of the main earth dam will be taken up. About 50 per cent of the work on the bridge will be completed. The work of construction of buildings is in progress. Further, work on roads will also be done and machines and equipment worth about Rs. 50 lakhs are proposed to be purchased".

### **1962-63**

"The project envisages the construction of reservoir across the river Tapi in Surat district which will provide storage to the Kakrapar canal system. Preliminary works like exploratory borings and investigation of the borrow area are in progress. About 1,4000 acres of land required for colony buildings, approach roads and borrow area, has been acquired. Construction of residential and non-residential buildings is in progress. The foundation for the earth dam between hill numbers 2 and 3 is completed in all respects. The foundation for the earth dam between hill numbers 1 and 2 will also be completed shortly in length of about 2,500 feet. The excavation of the cut-off trench on right bank saddle dam is in full swing. Earth work to the extent of 32 M.cft will be carried out on the section of the earth dam between hills 2 and 3 and 1 and 2. The construction of the bridge across Tapi river has been taken up and about 38 per cent of the work is expected to be completed during 1961-62 and further 50 per cent of the work is programmed to be completed during 1962-63".

**1963-64**

"This project envisages the construction of a reservoir across the river Tapti at Ukai in Surat district to irrigate 562,250 acres under Kakrapar Canals and to generate 1,10,000 K.W. of power. At present works on the following items of the project are in progress and they will be continued in 1963-64.

Investigation works on the suitability of foundation on alternative alignments by boring and seismic method are carried out. The investigation regarding quarry areas for rubble and borrow areas for suitable earth is in progress. Tests on suitability of material are being carried out in the field and laboratory. Climatological-observation and observation of the flow of the river are also continued.

For the dam site and the staff colony, lands of four villages, viz. Ukai, Silatvel, Chaoharbunda and Scrula have been acquired. The villages will be rehabilitated at their new sites during the next two years.

The work of excavation, grouting, and filling of cut-off trench on left bank would be completed in 1962-63. Work on earth dam will be in progress in 1963-64. On the right bank, work on the cut-off trench for the saddle dam is in progress.

80% of the work on the bridge across Tapi river will be done in 1962-63 and continued in 1963-64.

The colony for 3 Sub-Divisions on right bank would be completed by 1962-63.

In 1962-63, machinery worth Rs. 17 lakhs was expected to be received and during 1963-64, machinery worth Rs. 15.50 lakhs would be purchased including some ancillary equipment like air compressors, drills, grouting equipment and workshop equipment."

**1964-65**

The Ukai Dam project is a multipurpose project comprising of a large earth-cum-concrete dam. It is the second stage of development of the Lower Tapi Basin the first stage being the Kakrapar weir and canals project, which is nearing completion.

This is a multipurpose scheme giving benefits of (1) generation of power (2) Irrigation and (3) partial flood protection to the area lower down the valley.

The project is yet in the early stage of construction. Most of the staff quarters, office buildings, laboratory workshop, stores dispensary, rest house, etc., are completed. Buildings for Superintending Engineers office and bungalow are in progress. The approach road from Fort Songadh Station to Ukai Dam site and the bridge across the river Tapi are completed.

The work of earth dam between hill Nos. 1 and 2 and hill Nos. 2 and 3 on left bank is in progress. For the main dam in the river portion, detailed foundation explorations are being carried out.

*Programme of works during the year 1964-65 provides for the following :*

As the earthen dam in the saddle between hills Nos. 2 and 3 (Ch. 0 to 1800) would have been raised to its full height (except for the length out for accommodating head regulator) during the year 1963-64, all the activity laying the earth will be concentrated in the saddle between hills Nos. 1 and 2 (ch. 1800 to 5058) during the year quantity of earth-work that will be done in this section will be about 51.0 M.cft. This would raise the dam between hills Nos. 1 and 2 to R.L. 282.00.

In the right bank saddle drilling and grouting of right flank (Ch. 2660 to 3715) be completed and refilling will be started. Excavation in the left flank (Ch. 160 to 1400) will be completed and drilling and grouting of foundations will be taken up.

Excavation of cut-off trench on right bank of main gorge (Ch. 9800 to 12600) will be continued and about 8 M.cft. of work will be completed. Other allied works of laying horizontal and vertical sand filter, laying tip-rap and rock toe for the dam between hills Nos. 1 and 3 (Ch. 0 to 5058) will be continued.

*The following new works will be taken up.*

(i) Work on right transition well from (Ch. 7702 to Ch. 8144) will be taken up and it is proposed to complete the excavation, which would involve removal of 7.8 M.cft of overburden, 0.76 M.cft of soft rock and 0.58 M.cft of hard rock. Grouting shall also be taken up side by side with excavation.

(ii) Drilling and grouting of foundations in the river portion of main gorge (Ch. 8500 to 9425) will be taken up.

(iii) Excavation of foundations and foundation grouting for head regulator at Ch. 428 will be commenced."

### 1965-66

"This is a multipurpose project forming second stage of development of the lower Tapi Valley, the first stage being the Kakrapar Project which is in an advanced stage of construction. The project envisages the construction of an earth-cum-concrete dam across the river Tapi near Ukai village and a canal system on both banks to irrigate 3,91,650 acres of land and power house at dam base to generate 1,30,000 K.W. of power at 60% L.F. The scheme will in addition assure supply of irrigation waters to an area of 5,60,250 acres commanded by the Kakrapar Project. The Project will afford partial flood protection to the areas lower down the Valley, and to Surat in particular.

The project has been cleared by the Planning Commission and has been accorded administrative approval for Rs. 6120.02 lakhs by the State Government.

The major expenditure will be against the estimates of field hydraulic laboratory and residential and non-residential buildings at Race Course site, which are administratively approved for Rs. 9,47,778/- and Rs. 7,24,510/- respectively. The equipment is also required to be purchased for maintaining and running the five laboratories. Besides the estimate for purchasing one truck and 3 pick-up vans has been sanctioned out of which one truck and one pick-up van was proposed to be purchased during the year 1964-65 and two pick-up vans will be purchased during the year 1964-65 and two pick-up vans will be purchased during 1965-66".

### 1966-67

This multipurpose project forms second stage of development of the lower Tapi Valley. The first stage being Kakrapar Project which is in an advanced stage of construction. The project envisages the construction of an earth-cum-masonry dam across the river Tapi near Ukai village and a canal system on both banks to irrigate 3,91,650 acres of land and power house at dam base to generate 1,30,000 K.W. of power at 60% of L.F. The scheme will, in addition assure supply of irrigation waters to an area of 5,60,250 acres under the command of the Kakrapar Project. The project will afford partial flood protection to the area lower down the valley and to Surat in particular.

The project has been cleared by the Planning Commission and has been accorded administrative approval for Rs. 6,120.02 lakhs by the State Govt. Anticipated achievement during 1965-66 under this project is given in the following table :

Sl. No.	Item of Sub-Head	Antici- pated expendi- ture 1965-66	Remarks	Probable expendi- ture 1966-67	Remarks
1	2	3	4	5	6
1.	A—Preliminary ..	2.036	—	0.50	Investigation will be continued in the year.
2.	B—Land ..	36.769	4113 acres of land has already been acquired in the year against 13,175 acres programmed for the year. 15 awards totalling 9032 acres are likely to be finalised in December 1965 to March 1966 period. Their estimate value is Rs. 26.87 lakhs.	50.62	19,970 acres of land is proposed to be acquired for submergence. 22 villages are proposed to be rehabilitated.
3.	C—Works ..	2,122.44	Good progress on R. T. Dam is expected due to starting of masonry work in additional area after the monsoon. The progress on	318.15	80.5 M.cft. of earth work is proposed to be carried out 8.93 M.cft of masonry in spill-way and masonry dam is proposed.

1	2	3	4	5	6
			earth dam works is also expected to be better.		
4. D—Regulator ..	16·44	The work has been recently given out on contract.	44·08	The work of construction of H.R. will be continued.	
5. K—Buildings ..	11·75	102 units of buildings esti- mated to cost Rs. 13·5 lakhs have been taken up for construction recently after the monsoon. Good progress is expected on them.	11·60	241 units of buildings in progress from previous year are planned to be completed.	
6. M—Plan ..	0·075	—	0·75	Plantation in colony roads will be carried out.	
7. O—Misc. ..	9·975	—	7·85	Yearly running and mainten- ance and re- pairs of the existing ser- vices such as water supply, drainage, elec- tricity etc. will be carried out.	
8. P—Maintenance ..	1·00	—	1·50	Maintenance of buildings and roads will be carried out.	
9. R—Communications	3·22	—	1·05	Asphalt carpet on approach road from bri- dge to RBS	

1	2	3	4	5	6
				seal Songadh-Ukai road etc. will be provided.	coat
10. VI—Special Tools					
Plants .. .	49.99	---	61.85	Addl. plants & equipments will be pro- cured.	
11. IV—Suspense stock	19.39	---	23.00	II Establish- ment.	

## APPENDIX C

### PROJECT ESTIMATES FOR THE UKAI DAM PROJECT

Abstract of Unit I—Dam — Appurtenant Works. (Reproduced from the Project Report prepared by the CWPC)

	Rs. Lakhs
<b>I. Works</b>	
A—Preliminary .. .. .. .. .. ..	19·00
B—Land .. .. .. .. .. ..	418·08
C—Works	
(i) Clearing site and diversion works .. .. ..	26·50
(ii) Earth Dam .. .. .. .. ..	744·83
(iii) Concrete Dam .. .. .. ..	1,484·20
	<hr/>
	2,255·53
D—Regulators .. .. .. .. .. ..	60·00
G—Bridges .. .. .. .. .. ..	25·00
K—Buildings .. .. .. .. .. ..	95·24
M—Plantation .. .. .. .. .. ..	1·00
O—Miscellaneous .. .. .. .. .. ..	71·93
R—Communications .. .. .. .. .. ..	57·57
P—Maintenance : (During Construction)	
@ 1% on works outlay—less B-Land .. .. ..	25·85
6—Special Tools & Plant .. .. .. .. .. ..	75·00
7—Losses on Stock .. .. .. .. .. ..	10·00
8—Unforeseen items .. .. .. .. .. ..	10·00
	<hr/>
Total for I—Works	13,124·20
<b>II. (a) Establishment</b>	
@ 6½ % on I—Works Less B—Land .. .. ..	175·90
<b>(b) Leave and Pensionary charges</b>	
@ 21% of 50% of Establishment .. .. .. ..	18·47
<b>III. Tools &amp; Plant</b>	
1% on I—Works .. .. .. .. .. ..	31·24
<b>IV. Suspense</b> .. .. .. .. .. ..	Nil
<b>V. Deduct Receipts on Capital Account</b>	
(a) 30% on III—Tools & Plant .. .. .. ..	—

(b) Salvage value of temporary buildings							
@ 15% on 66.87	-	..	..	..	..	10.00	
						19.37	19.37
							<u>3,330.44</u>

*Indirect Charges*

(i) Capitalisation of abatement of land Revenue							
@ of B—Land	-	..	..	..	..	20.90	
(ii) Audit & Accounts Charges							
@ 1% of I-Works	-	..	..	..	..	31.24	
Total Indirect charges	..	..	..	..	..		52.14
Total Direct and Indirect charges	..	..	..	..	..		<u>3,382.58</u>

**APPENDIX D**

**STATEMENTS AND CHARTS PRESENTED QUARTERLY TO THE UKAI CONTROL BOARD**  
**(Important Basic Data of Ukai Project as submitted to the Ukai Control Board every quarter)**

Sl. No.	Item	Estimated quantity (revised)		Amount
		British Units	Metric Units	
1	2	3	4	5
<b><i>Unit-I Dam and Apurtenant Works</i></b>				
<b><i>I-B-Land</i></b>				
1. Acquisition of land for submergence	.. 65,500 acres	26,500 ha		
2. Shifting and rehabilitation of village	99 Nos.	99 Nos.		
Provision in the approved estimate for B-Lands				Rs. 440·58 lacs. *(Rs. 441·27 lacs)
<b><i>II-C Works</i></b>				
<b><i>(i) Earth Dam</i></b>				
1. Excavation of cut-off-trench	.. 61·5 M. cft.	1740	$10^3$ Cu. meter	
2. Drilling and grouting below C.O.T. bed	.. 1,20,172 R. Ft.	36,360 Meter		
3. Concrete diaphragm	.. 1,97,950 sft.	18,390 Sq. Meter		
4. Earth fill	.. 851 M. cft.	24,100	$10^3$ Cu. meter	
Provision in the approved estimate for Earth Dam				Rs. 965·71 lacs. *(Rs. 2329·52 lacs)
<b><i>(ii) Masonry Dam</i></b>				
1. Excavation for foundation	.. 59·3 Mcft.	1680	$10^3$ Cu. Meter	
2. Masonry	43·4 Mcft.	1225	$10^3$ Cu. Meter	
3. Concrete	6·4 Mcft.	180	$10^3$ Cu. Meter	
4. Gates	.. 54,921 Sft.	5102	Sq. meter	

## Provision in the approved estimate for Masonry Dam

Rs. 1663·55 lacs  
\*(Rs. 1666·50 lacs)

## III. K. Buildings

1. Officer's residences	..	85 Nos.	85 Nos.
2. Other residences	..	1122 Nos.	1122 Nos.
		1326 Nos.	1326 Nos.

## Provision in the approved estimate for K—Buildings

Rs. 78·38 lacs. (Rs. 155·95 lacs)  
Rs. 39·60 lacs. \*(Rs. 105·86 lacs  
net)

Rs. 366·40 lacs

Total for I— Works .. .. ..

Rs. 3548·22 lacs. (Rs.  
5351·26 lacs)

Estt. & other charges .. .. ..

Rs. 301·06 lacs. (Rs. 351·21  
lacs)

Net Amount .. .. ..

Rs. 3849·28 lacs. \*(Rs.  
5773·81 lacs)

## Unit —II Main Canal &amp; Branches

Provision in the approved estimate

1136·28 \*(Rs. 1780·39 lacs)

## Unit —III Hydro-electric Installation

Provision in the approved estimate (including 'trans-  
mission').....

1144·46 lacs \*(Rs. 2081· lacs)

Total project estimate (approved)

6120·02 lacs \*(Rs. 9635·2 lacs)

\*approximate revised cost



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## **ACCOMPANIMENT 'C'**

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**339--40**



**R E P O R T**  
**O F**  
**THE WORKING GROUP**  
**O N**  
**STATE FINANCES**  
**A N D**  
**CENTRE-STATE FINANCIAL RELATIONS**

(Appointed by the Study Team on Financial  
Administration set up by the Administrative  
Reforms Commission)

**BOMBAY**  
**April, 1967**



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## **INTRODUCTION**

The Working Group on State Finances and Centre-State Financial Relationship was appointed by the Study Team on Financial Administration set up by the Administrative Reforms Commission. The Group was set up in October 1966 under the Chairmanship of Dr. D. T. Lakdawala, Professor, University of Bombay. The Members of the Working Group were the following :

Shri S. D. Deshmukh, Executive Trustee, Unit Trust of India.

Dr. V. V. Bhatt, Director, Division of Planning & Special Studies Economic Department, Reserve Bank of India.

Shri J. C. Luther, Deputy Secretary, Administrative Reforms Commission.

Shri D. G. Tungare, Deputy Secretary, Finance Department, Government of Maharashtra.

Shri K. Ramakrishna Iyer, Financial Adviser, Government of Maharashtra.

Dr. D. R. Khatkate (Convener), Director, Special Unit on State Finances, Economic Department, Reserve Bank of India.

The terms of reference of the Working Group were as follows :

- (i) With reference to the States, to examine and suggest improvements both generally and with particular reference to development schemes in the Plan and outside it in—
  - (a) the methods and procedures relating to the formulation, presentation, approval and execution of the Budget; and
  - (b) the systems of expenditure control with particular reference to the role of the Finance Departments of State Governments.
- (ii) To examine and suggest improvements in procedures for determining the quantum of Central assistance and the

procedures involved in the release of such assistance by Union Government.

- (iii) To examine and suggest improvements in the present procedures relating to centrally sponsored and centrally assisted schemes in the State sector with particular reference to their co-ordination with the State Plans.
- (iv) To examine and suggest improvements in the present procedures with regard to the borrowings by the States from the public, from the Centre or the Reserve Bank of India.

The Report is divided into five Sections. Section I deals with the guiding principles governing the State Finances and Centre-State Financial Relationship. Section II is concerned with the State budgets and the control of expenditure. In Section III, procedures regarding determination and release of Central assistance are discussed and in Section IV the aspects of the procedure regarding borrowing by the State Governments both from the Reserve Bank and the public are considered and recommendations made for their reform. Section V gives the summary and conclusions that emerge from the discussions in the preceding Sections.

### **SECTION I**

#### **SOME GUIDING PRINCIPLES RELATING TO STATE FINANCES AND CENTRE-STATE FINANCIAL RELATIONS**

The procedures and practices relating to the State finances (as well as Central finance) and Centre-States financial relations have evolved in the light of the constitutional provisions, the legacy of the British practice before Independence and the compulsions of the planned process of economic and social development. Since the process of constitution making was completed before the era of planning began, the constitutional provisions in this field did not reflect the requirements of a Centrally initiated process of planned development. As a result, the procedures and practice required by the planning process have been more or less super-imposed on the inherited as well as the constitutional procedures and practices. This improvisation and make-shifts arrangements have been responsible for a certain lack of integration and coordination in this field with the result that they do not effectively serve the purposes for which they are supposed to be the instruments.

The Group have studied and analysed some of these practices and procedures in the light of the objectives set by the Constitution and the planned process of development and have proposed certain reforms, which, in their view, are necessary to attain those broad objectives. However, before we discuss these proposals, it would be worthwhile indicating certain general principles in the light of which our proposals are put forward.

### SOME GUIDING PRINCIPLES

#### *I. Spirit of the Federal Principle*

The motivating idea underlying the adoption of the Constitution doubtless was to uphold and strengthen the unity of the country and ensure its integrated socio-economic development. However, in a country so large as this and with such diversity with regard to physical, economic and cultural factors, the Constitution had to be in essence a federal one so that constituent units of the federal State could develop in the light of their peculiar and unique circumstances and still reinforce the integrated development of the country.

The spirit of the Constitution thus indicates a certain *conditional freedom* to the States to evolve appropriate policies in fields requiring specialised local knowledge and initiative, and in which the impact of these policies would be felt largely within the States. At the same time, this freedom has to serve the national interests. The Constitution provided for this by delimiting the fields of Central, State and concurrent Central-State jurisdiction. Further, it provided the control of the Central Government over the major instruments of mobilising financial resources. This Central control over the major sources of finance provided the required effective control of the Central Government necessary to ensure a *national bias* in the policies of the State Governments.

Since the control over the major sources of tax revenue was vested in the Central Government, the Constitution provided for the equitable distribution of Centrally mobilised tax resources by means of the periodical awards of the statutory Finance Commission.

However, the Constitution did not visualise the compulsions of the planned process of development and the increasing role of the State in this process, initiated with a view to giving effect to the direc-

tive principles of State policy enunciated in the Constitution. It left social and economic planning in the concurrent list and did not provide for the effective control over this process by the Central Government. As a result, several administrative practices and institutions have emerged. The Planning Commission at the Centre has been made responsible for a national plan which is formulated in consultation with the State Governments. The National Development Council has been evolved to take major policy decisions with regard to the Plan. The real sanction with the Central Government for ensuring a national bias in the State plans, however, has been the instrument of Central assistance to the States.

These administrative developments have had several adverse effects on the planning process, apart from the fact that they have led to two agencies—the Planning Commission and the Finance Commission—deciding about the magnitude of Central assistance to the States on the basis of different and sometimes conflicting criteria.

- (a) Since no definite criteria are laid down by the Planning Commission with regard to the Central assistance to the States, all sorts of devices and subterfuges are devised by the States with a view to obtaining as large a quantum of Central assistance as possible.
- (b) The absence of an efficient planning machinery at the State level reinforces this tendency.
- (c) Quite often, therefore, the two objectives of the Constitution-conditional freedom to the States to evolve policies suited to their local milieu and introduction of a national bias in the State policies—are not attained. The States have adhered to the pattern of expenditure as proposed by the Planning Commission even when it was not suited to their needs or when the assistance was not linked to a specific pattern, utilised it in a manner different from that proposed by the Commission.

Thus the acceptance of a planned process of development has introduced a new dimension with regard to the Centre-State relations—a dimension that was not thought of at the time of Constitution-making. The Central Government have now got a fresh instrument in the Plan and Plan assistance to introduce a national bias in the State policies. But this instrument has not been properly integrated

with the other instruments and again has been wielded in a manner which does not subserve the spirit of the Constitution.

The Group have therefore recommended that the procedures and practices enjoined by the Constitution be properly integrated with those developed as a result of the adoption of the planning process. In concrete terms the recommendations are :

- (a) The planning process should not be linked with the task of determining the magnitude of Central assistance to the States. The idea is that the States should formulate their plans in terms of the national and local objectives and these States Plans should be coordinated and integrated into a national plan by the Planning Commission. This would induce the States to formulate their plans rationally in the light of their local milieu.
- (b) The Central assistance to the States should be in two forms :  
(i) grants and (ii) loans.
- (c) The total grant assistance by the Centre to the States should be determined on the basis of the surplus on current account of the Central Government.
- (d) There should be a permanent Finance Commission to determine the magnitude of this assistance to each State on the basis of definite criteria related to each State (i) population, area (ii) relative backwardness and (iii) the performance with regard to agricultural output in the previous period.
- (e) This grant assistance will not be tied to any project and the States would be free to spend it in whichever way they like. This freedom will enable the States to modify their plans rationally in the light of the developing situation. At the same time, since a part of this assistance would be determined on the basis of the performance of each State in the field of agricultural output, the States would be induced to keep in view national objectives as well as efficiency considerations.
- (f) The loan assistance to the States would be for specific projects for which (i) it is possible to identify their direct costs as well as benefits and (ii) which can be implemented in a business-like way. By and large, these projects should be

managed by corporate bodies (like a company, board or a statutory corporation). Such projects would be largely in the fields of power, major irrigation, transport and industry.

- (g) A National Development Bank should be set up to provide loan assistance to the State (as well as Central) corporate bodies. This Bank would grant loans for specific projects (i) in the light of the inter-sectoral and inter-State pattern of investment formulated in the Plan and (ii) on the condition that the Centre as well as the State bodies would be prepared to meet a certain proportion, say 40—50 per cent. of their total project costs. The terms and conditions of the Bank loans would depend upon the nature of the projects. The Bank would also provide technical and managerial assistance to State Corporate bodies in the field of formulation as well as implementation of projects.
- (h) Among the public sector agencies, the National Development Bank would have the right to borrow funds from the Indian as well as external markets and would perform the function of allocating these resources to various projects on the basis of the soundness of the projects as well as the plan priorities as between sectors as well as States (and the Centre).

### *II. Delimiting the Range of Effective Political Decisions*

This proposal of the National Development Bank has been made in the light of yet another principle which seems to us to be of paramount importance for the efficient functioning of the democratic method in the context of the compulsions of a planned process of development.

This principle relates to the proper demarcation of the fields of decision making. There are certain fields in which decisions have to be primarily *political* decisions. These fields relate to the basic aims and objectives of planned development and the machinery for attaining these aims and objectives. However, once the aims and objectives have been specified and the machinery decided upon, the rest of the decision making process should be governed by purely rational business-like considerations with the role of the State restricted to that of a general supervisor. If the effective range of political decision is-

not thus properly delimited, it is quite likely that in a democracy with an increasing role of the State, decisions would turn out to be irrational from the point of view of the basic aims and objectives. Democracy does not require that every function of the State be subject to its political method. Thus almost any type of human affairs may conceivably be made to enter the sphere of the State without becoming part of the material of the competitive struggle for political leadership beyond what is implied in passing the measure that grants the power and sets up the agency to wield it and the control that is implied in the Government's role of general supervisor.

On this principle of properly delimiting the effective range of political decisions, it is recommended that (a) all public sector enterprises should be organised on the corporate principle and their development and expansion should be judged largely on rational business-like considerations (b) the projects of such public sector enterprises should obtain finances on the basis of their respective performance and promise and (c) the National Development Bank should function so as to provide loan finance on business-like principles.

It is again on the basis of this principle that it is recommended that once the projects (other than the capital projects in charge of corporate bodies) directly under the Ministries/Departments are approved, the latter should have adequate authority to design them in the light of their specialised knowledge, should be provided with adequate resources in the light of the budget and the plan and should be judged only on the basis of their performance by the Ministry of Finance.

Once the effective range of political decisions is thus delimited, the proper functioning of public sector enterprises would depend on the competence of the bureaucracy and to ensure this, appropriate rules with regard to appointment, tenure and promotion will have to be framed and when these rules are framed they should not be tampered with by purely political decisions. This is a vast subject by itself; suffice it for us to indicate that a proper functioning of a democracy in a situation where the role of the State is expanding depends crucially on the quality of the bureaucracy.

### *III. Improving the Quality of Political Decisions*

Once the fields are clearly demarcated for the purpose of political decisions, it is necessary to ensure that these political decisions could

be taken on the basis of the relevant information. The procedures and practices must be such as to present clearly the choice of problems on which decisions have to be political in nature. If the choice of problems are not clearly presented, political decision would be based on ignorance of the relevant issues and the democratic method would not serve the purpose for which it is meant. Again, if the role of the Government as a general supervisor is to be performed efficiently, the performance of various public sector enterprises as well as Ministries/Departments will have to be judged on the basis of definite and clearly laid down criteria.

The decisions relating to the Plan objectives, for example, have to be political decisions. This means that for facilitating these decisions, the implications of different sets of objectives should be clearly presented to the legislative and executive organs of the State. Under the present procedures, it is doubtful whether these alternatives are clearly perceived either by the legislative or the executive organ of the State. It is necessary therefore to instruct the planning agencies in the States and at the Centre to work out a few plan variants and their implications to enable the Government to arrive at meaningful decisions about plan objectives.

Once a plan is formulated, the next question is about the process of its implementation. The budget is the only instrument with the State to give effect to the plan. However, the way in which it is formulated and passed at present is such that it is difficult to correlate the plan with the budget and the proposed economic policies. It is suggested that the budget should be formulated and presented in such a way that the decision-making organs know precisely the relationship between the plan objectives and the budget. In concrete terms, it is suggested that a small committee of the legislature, to be called "Budget Committee", should examine this relationship before the budget is presented and submit its report to the legislature. This would ensure meaningful discussion and formulation of the budget.

The executive and the legislature again have to perform the role of a general supervisor. This role cannot be effectively performed unless definite performance criteria are evolved with a view to judging the performance of public sector enterprises and Ministries/Departments. Without such criteria, it becomes difficult for the legislature to discuss economic and other policies rationally and meaningfully. The

budget therefore should establish not only the link between the plan objectives and the policy instruments but should also specify clearly the expected performance in various fields.

Such then is the general approach that the Group have adopted in suggesting various reforms in the procedures and practices relating to State finances and the Centre-State relations. What we have recommended should be judged as applications of the principles implicit or explicit in the Constitution. What should be considered as categorical imperatives are these principles. Briefly they are :

- (1) To uphold and strengthen the unity of the country through such Central sanctions and such conditional freedom to the States as may be necessary to bring about the desired pace and pattern of socio-economic development;
- (2) To limit the range of effective political decisions to fields for which the democratic method is suited;
- (3) To present the issues involved clearly so that political decisions can be taken in these restricted fields meaningfully;
- (4) To evolve appropriate institutions, rules and procedure in other fields so as to attain rationally the objectives chosen by the democratic method; and
- (5) To ensure the services of a well-trained bureaucracy of good standing and tradition, endowed with a strong sense of duty and a no less strong *esprit de corps* for rational decision-making in fields where the democratic method does not apply.

## *SECTION II*

### BUDGET AND CONTROL OF EXPENDITURE

The general approach and how it is linked with some of the proposals that we have made are outlined in the earlier Section. In this Section the procedures and practices relating to the budget and control of expenditure are analysed and proposals for reform in these procedures and practices are indicated.

### *I. Information relevant for Political Decisions*

The objectives and the action programme as outlined in the budget to realise these objectives are matters for political decision. This is the sphere where decisions have to be made by the democratic method. This means that the legislature should have enough information to decide meaningfully about the issues presented in the budget.

To decide about the action programme, it should know past performance so that it can relate the proposed action programme to the prevailing situation. It should also know how the action programme fits into the annual and five-year plans. In concrete terms, what is required is (a) the impact of the previous year's action programme on the economy and (b) the relationship of the proposed action programme with the past performance and the plan objectives. Without this information, it is hardly possible for the legislature to discuss and approve the budget in any meaningful sense.

The budget as formulated and presented at present to the legislature does not systematically relate the proposed action programme to the evaluation of past performance and the plan. By and large, it provides the resources picture under some broad heads and the expenditure programmes of the various Ministries/Departments. By and large, the presentation of the budget is not such as to enable the legislature to decide about its appropriateness. As a result, the discussion on the budget in the legislature is hardly enlightening or exciting.

What seems to be necessary, therefore, is to present an evaluation of the previous year's budget in the light of the plan objectives and the present proposed action programme in such a way that the legislature can relate it to the plan and the past performance of the Government.

#### *Proposal for a Budget Committee of the Legislature*

Further, to bring out the issues in the budget sharply for political decision, it would be advisable to institute a committee of the legislature—say, a Budget Committee—as a permanent body. This Committee should analyse the proposed action programme in the light of past performance and the plan objectives. In so doing, it should highlight the issues on which the legislature should deliberate. It would be difficult for the legislature as a whole to go into these problems in detail and such a Committee would help in organising the budget material in a manner as would be meaningful to the legislature. The report

of the Committee should be presented before the budget is taken up for discussion.

## *II. Budget as an Action Programme*

The second aspect of the budget is that it represents an action programme to implement the plan objectives. As such, the budget represents an instrument for plan implementation. To ensure an effective and rational use of this instrument it is necessary to know (a) its impact on various sectors of the economy and (b) how with its direct and indirect impact on the economy it would enable the realisation of the plan objectives.

### *Budget should cover All Government Transactions*

The first question is : whether the budget represents a comprehensive statement of the Government action programme. With the enlarging role of the State, the latter has taken up specialised functions in the economic field and has set up a number of Government corporate bodies to mobilise resources and run enterprises. The accounts of these public sector enterprises are kept distinct and are not shown in some form the existing and proposed activity of the public sector extent of Governmental activity in the economic field. To know precisely the action programme of the Government it is necessary to show in some form the existing and proposed activity of the public sector enterprises. Such reform would make the Government budget comprehensive.

### *Need for An Economic Classification of the Budget*

The second question is : how to know precisely the impact of the budget on the economy as a whole. The budget as presented at present reflects, as far as the expenditure side is concerned, only the spending programmes of the Ministries/Departments. Unlike the Central Government the States do not present an economic classification of the budget. (The economic classification of the Central Government budget, however, does not cover public sector enterprises). Hence, the impact of the budget on the economy cannot be precisely indicated. If this information is lacking how can even the Government be certain about the effectiveness of the budget in realising certain over-all plan objectives ? Obviously, the budget is not properly used here as an effective instrument of the Plan. To be one, it should be formulated

in such a way as to indicate precisely its impact on the economy. Economic classification of the budget is in fact the inevitable first step toward making it an effective instrument of the Plan.

Once such an economic classification is adopted, several defects, imperfections and arbitrary elements in the budget would be sharply brought out. What is necessary for finding out the impact of the budget on the economy is obviously the total receipts and total expenditures of the Government, including the public sector enterprises. The distinctions drawn at present between development and non-development expenditure and between plan and non-plan expenditure would then disappear from the meaningful analysis of the budget. Further, some of the arbitrary practices in the budget, which make it a chaotic document from the analytic point of view, would also be brought to light.

These arbitrary practices can be illustrated. There are no logically satisfactory criteria adopted to distinguish the current account from the capital account. Some items of capital nature are presented in the current account, while some current items also appear in the capital account. Further, on the receipt side of the current account, no distinction is made regarding the nature of the non-tax receipts. Under the head 'Administrative Receipts', various distinguishable receipts like rent on land and building, fees for commercial services rendered, fines and penalties are all lumped together.

In capital expenditure, the expenditure on 'State Trading' is shown on a net basis.

These instances can be multiplied. They show that the budget presentation is inadequate even for indicating receipts and expenditure under *clearly identifiable and meaningful heads*. Once an economic classification is attempted, such arbitrary practices would tend to disappear.

#### *Budget should be presented in the Framework of the Plan*

The third problem is that of relating the budget with the plan. Since the budget is an instrument of the plan, it has to be formulated and presented within the framework of the plan. It must show the precise plan objectives that the budget seeks to realise and how.

At present, few States publish any document corresponding to the Annual Plan document issued by the Maharashtra Government. Even

with regard to the latter, there is no breakdown of the plan outlay into current outlay, capital outlay and loans and advances to other sectors. Further though it is possible to identify the plan schemes in the budget documents and correlate the estimated plan expenditure in the budget documents with the plan outlay as given in the Annual Plan, it is not possible to correlate the *actual* outlay in the past under the plan as given in the budget documents with that given in the Annual Plan, as the former do not give the loan component of the plan outlay. As far as the resources side is concerned, no attempt is made to correlate the plan figures with the budget figures (*see* for fuller details Appendix I).

The relation of the budget with the plan is at present quite confusing also because of the division of expenditures into categories which do not seem to be meaningful. For example, total expenditure is divided into development and non-development expenditure. The developmental expenditure is further sub-divided into two categories—plan expenditure and non-plan expenditure. It appears that the categorisation of expenditure into development and non-development categories does not serve any function. From a larger social point of view, all expenditures should be considered as developmental expenditure—that is, expenditure necessary for the desired socio-economic development. The present categorisation has given the impression that non-developmental expenditure is somehow unnecessary and should be reduced. This is a mistaken impression as expenditure on law and order and general administration can hardly be called non-essential expenditure from the development point of view.

The real distinction should be between current and capital expenditure. This would facilitate rational allocation of resources among various items, all of which are necessary for planned development. The present distinctions have a distorting influence on the choice of expenditure pattern; for different criteria apply to different categories of expenditures.

Once all expenditure is treated as plan expenditure there would be no difference between the annual public sector plan and the budget. In such a case, the annual plan would have to be formulated first and the budget would represent merely a reclassification of the public sector plan categories in terms of the budget categories. What would be meaningful for purposes of discussion and analysis thus would be the Plan and Plan policies and such economic classification of the public sector plan as would be required to indicate precisely the impact of the

public sector activity on the economy as a whole. The budget thus would truly become an instrument of the Plan.

*Action Programme should be based on detailed Project Reports*

For the purposes of the Government, even this would not suffice for the budget represents an *expenditure programme* by the Government Ministries/Departments and the public sector enterprises. To choose the projects rationally in the light of the plan objectives, the Government should have detailed project reports and the budget should then be cast not only in terms of the spending Ministries/Departments and public enterprises but also in terms of these concrete projects. For a sound expenditure programme, the project should be formulated in the required detail; unless this is done, it cannot be called really an action programme.

Once the Finance Ministry has such detailed information on the basis of which the budget is formulated and presented, it would be easier for it to control expenditure by various agencies rationally. At present, these projects at the budget stage are hardly formulated with the details required and the expenditure pattern shown represents largely crude estimates of expenditure on projects, which themselves are not quite often identified or formulated. Such being the case, the Finance Ministry, at the time of execution of the budget, has to sanction expenditure by various agencies piecemeal. This results in delay on the part of the spending agencies and further reduces their sense of responsibility and accountability. At each phase of the project, Finance Ministry's sanctions become necessary and the claims put forward by the spending agencies are affected by both the delays and the bargaining to which these procedures lead.

All these delays and the lack of sense of responsibility and accountability can be avoided if at the stage of budget-making detailed project reports are insisted upon and approval of expenditure is given on the basis of project costs and expected performance in advance to the various agencies. If this is done, the budget itself would correctly reflect the expenditure programme project-wise of the various spending agencies the latter should be in possession of the required resources. Each spending agency in that case could keep an account with the Reserve Bank of India (this to some extent is the practice even at present) or any other bank to which the Finance Ministry would credit agreed funds each quarter. The spending agencies as well as the Bank should send

to the Finance Ministry detailed accounts and reports of performance every quarter on the basis of which the Finance Ministry would allocate funds for the next quarter.

Such a procedural change would reduce delays, induce greater care and sense of responsibility in the spending agencies in the task of project formulation and implementation and would enable the Finance Ministry to allocate resources much more rationally than is possible at present. The detailed project reports would enable the Finance Ministry to judge the various projects on the basis of their performance and enable it to prepare a performance budget.

To facilitate this type of budget execution and control of expenditure, all spending agencies should be induced to plan ahead at least for five years and have a stock of well-worked out projects, much greater than can be implemented in a year or two. With such forward planning and with a large number of well-worked out projects, it would be possible to formulate the budget and choose projects on the basis of sound information. Each year every spending agency should have well-worked out projects which can be taken up for the next three years.

#### *Summary of Reform Proposals*

The reforms proposed in the sphere of State finance may be summarised.

(1) Since the budget represents as instrument of the plan, and since approval of the budget has to be a political decision, the legislature should have enough information on past performance, plan objectives and the precise way in which the budget seeks to attain these objectives. To bring out the issues for political decision sharply, a Budget Committee of the legislature should report to the legislature with regard to the relationship of the budget with past performance and the plan objectives.

(2) The budget should cover comprehensive statement of all Government activity if the precise impact of Government action on the economy is to be known. The budget thus should include not only the departmentally run enterprises but also the public sector enterprises, which are organised as corporate bodies.

(3) The plan embraces the whole economy and the budget is an instrument for realising the plan objectives. Unless the impact of the brought up to a minimum level, thereby aiming at "equal sacrifice and

to relate rationally and meaningfully the budget with the plan. Hence economic classification of the budget should be presented. This would correct some of the defects in the presentation of the budget.

(4) The budget further should be fitted into the plan framework and should be presented in such a way as to bring out clearly its relation with the plan. Plan expenditure should cover all current as well as capital expenditure in the public sector. The budget, thus, should represent the annual public sector plan.

(5) The budget is an action programme and no action programme can be formulated without detailed project reports. The budget should be based on schemes which are already well worked out. If this is done, by various spending agencies, once their projects are approved at the budget stage, they should be allocated every quarter adequate funds for implementing these projects. This would reduce delays, induce a greater sense of responsibility and accountability in the spending agencies and enable the Finance Ministry to control the pace and pattern of expenditure much more rationally than at present.

(6) The various spending agencies should be induced to plan ahead for at least five years and have much greater number of well-worked out projects than what they could implement in a year or two. This would facilitate the process of basing the budget on well-worked out detailed projects.

(7) The proposed reforms would facilitate the task of planning as it would ensure sounder and more adequate and analytically meaningful information to the planning agencies than is being done at present.

### *SECTION III*

#### **CENTRAL ASSISTANCE**

In this Section, we would turn our attention to the examination of the present procedures for determining the quantum of Central Assistance and the procedures involved in the release of such assistance by the Central Government and then proceed to make certain recommendations on the basis of that analysis.

To begin with, we may refer to the nature of existing Centre-State financial relations. Under Article 275(i) of the Constitution, the States receive grants-in-aid which are given, as in all federating entities, with a view to levelling off the status of the various units. The quantum

and mode of this assistance are determined by the Finance Commission which is appointed, in terms of the Constitutional provision, every five years. However, since 1951, this form of Central assistance to States has been overshadowed, slowly but certainly by the discretionary assistance from the Central Government under article 282, which is outside the basic provision of the Constitution governing 'Distribution of Revenue between the Union and the States'. Though this provision is only of a permissive nature, to be used as a possible contingency measure it has come to play a major role, with a substantial step-up in the Central plan assistance to States. This means that the functions of the Finance Commissions and those of the Planning Commission have tended to overlap at many points. Naturally, it has created a not inconsiderable amount of confusion in the criteria adopted in determining Central-assistance.

Apart from this, there is also a problem of the procedures, forms and mode of assistance especially in regard to the assistance given by the Planning Commission. Unlike the statutory assistance given under the award of the Finance Commission, the Plan assistance is generally for specific purposes. Originally, the form and procedures devised in this connection were such as to enable the Planning Commission and the concerned administrative Ministries of the Central Government to keep a proper watch over the end-use of the assistance by the States. This naturally resulted in a multiplicity of patterns. Subsequently, these patterns were revised and modified to permit greater scope for flexibility in the use of assistance.

Both these aspects would be considered. Firstly, the relative roles of the Finance and Planning Commissions would be discussed and the points at which they overlap would be indicated. Secondly, the existing procedure of Central assistance would be broadly discussed and their adequacy or otherwise in the changed economic context in India would be considered with a view to suggesting improvements in those procedures.

#### *Relative Roles of Finance and Planning Commissions*

The role of the Finance Commission is governed by the basic principle of the federal finance, which seeks to meet the residuary budgetary needs of the States, after taking into account the devolution of the Central taxes to States. The underlying idea is that the constituent units, being at different stages of development, need to be brought up to a minimum level, thereby aiming at "equal sacrifice and

equal opportunity. In some of the federations like Australia, such grants are based on a kind of "equilisation" index. In the light of this basic principle, the various Finance Commissions devised their own schemes for determining the quantum of statutory assistance to States. By and large, the emphasis is on the need to meet the budgetary gaps of the States, interpreted in a rather narrow sense of the term. The first Finance Commission, for instance, argued that "the budgetary needs of the States should first be estimated by a detailed examination of the forecasts of revenues and expenditures submitted and then these should be reduced to a comparable basis by the exclusion of abnormal, unusual and non-recurring items of expenditure. Adjustment in these analysis should be made to take account of the extent of tax effort made by each State individually and also the measure of economy it had effected in administration. This would then help a broad judgement on the quantum of assistance that would be required". This general approach was sought to be ineffectively qualified by a proviso that the level of grants-in-aid should be made dependent also on the level of social services reached in a State and any special disabilities arising out of its constitution should entitle it "to a further moiety of assistance."

Planning changed the entire economic, political and fiscal context in the country. The criterion of budgetary needs, implicit in the Finance Commissions' recommendations, was eroded by the impact of Plan expenditure, growing as it did in the last few years. The formulation and implementation of Plans at State level, formed a charge on the Central fisc, in fact, if not in theory. The tax sources of the States, being inelastic generally, the sinews of finance for putting through the Plan had to be raised through Central assistance. As a result, the criterion of 'Budgetary needs'a concept which considers only current revenue and expenditure gap—for allocation of Central assistance gave way to 'fiscal needs'—a concept of much wider economic significance which interprets the gap in resources in an overall context of total expenditure of the State. This is evident from the change in the nature and magnitude of Central assistance to States in the last decade and a half (Appendix II).

This slow but perceptible change in the Centre-States' financial relationship, of course, influenced to some extent the thinking of Finance Commissions. The first Finance Commission recognised the need to cover not only the budgetary need but also the fiscal needs arising out of development programmes. The Second Commission reiterated

the same view and recommended assistance to the States which along with promised planning grants would enable them to put through their plans. But it was left to the Third Finance Commission to incorporate this view, in quantitative terms, in its recommendations regarding statutory grants. And on this basis it recommended that "the total amount of grants-in-aid should be of an order which would enable the States, along with any surplus out of the devolution, to cover 75 per cent of the revenue component of their plans." In doing so, the Commission had fully allowed for the additional taxes to be raised by each State as incorporated in the Plan itself. However, the recommendation was not accepted. The Fourth Finance Commission guided by its terms of reference to take only non-Plan expenditure into account calculated the non-Plan revenue gap on the basis of its scrutiny of the estimates submitted by State Governments and recommended its complete elimination through Central assistance.

Admittedly, the Planning Commission's role in regard to allocation of Central assistance to States is much wider and in terms of magnitude more decisive and effective. To be precise, its role is confined to the *additional* current outlay and total capital account which is projected every five years. The Planning Commission helps in formulation of State Plans, shapes it, in an overall perspective of the nationwide strategy of growth. For that purpose, it considers the budgets of the State Governments in their entirety not excluding the non-Plan revenue and capital expenditure. After this is done, it determines its quantum of assistance to States. Broadly, it bears in mind two considerations. First, the gap in the State Plans, after allowing for additional taxation and borrowing; second, the commitment involved in fulfilment of the Centrally-sponsored schemes. For this, it has introduced a number of patterns of schemes, embodying therein the matching principle (see, for details, Appendix IV).

It would be evident from the foregoing that the functions of these two bodies overlap at many vital points. And since these functions are discharged by two different bodies separately, more often than not, the results are contradictory, disturbing thereby the harmony in Centre-States financial relations. This sort of overlapping often leads to conflicting results.

Firstly, the estimates submitted by the State Governments to these two bodies are not consistent. As the Finance Commission is engaged

in filling the 'revenue gap' through statutory grants, the States are tempted to present figures which underestimate their resources. On the other hand, in their submission to the Planning Commission, they consistently over-estimate their resources raising potentialities as the more they promise to raise, the more they are likely to get. Considering that the process of Plan formulation has not generally coincided with the deliberations of the Finance Commissions (except in respect of the Fourth Plan) it is not very difficult for State Governments to play one body against the other.

Secondly, the working in isolation of these two Commissions leads some wealthy States to fudge the figures. Since the statutory assistance under the Finance Commission's award is given only to those States which have a gap in their non-Plan revenue account, these States are listless and indifferent to the Finance Commissions and if at all they show any interest, they manoeuvre a false gap in the revenue account. The position is the opposite when they approach the Planning Commission.

Thirdly, following from the above, is the implication of the surplus in revenue account of the States. As observed earlier, the States with such surpluses do not concern the Finance Commission. But these surpluses are a significant factor for the Plan expenditures for the States. In fact, this shows the absurdity of a distinction between Plan expenditure and non-Plan expenditure, drawn by these two Commissions for the purpose of allocation of Central assistance.

Fourthly, the distinction between Plan and non-Plan expenditure itself is false, however it might have been drawn. The expenditure in the current Plan period on the schemes completed in the previous Plan is considered as non-Plan expenditure. This distinction is invidious, to say the least. When the Plan expenditure is continuing and is constantly increasing, the non-Plan expenditure, insofar as it functionally related to the Plan expenditure, is also increasing likewise. It is odd, therefore, that the datum which one body considers as relevant is totally ignored by the other. Since it is the total expenditure that is pertinent, it should be the total assistance that should be the concern of any body charged with allocation of Central assistance.

Finally, a major contradiction and irrationality in the functioning of the two bodies arise because the datum used is different. Hence they act at cross purposes. The major objective of statutory assistance is to bring up the backward States to a minimum level in relation to the affluent

States. This is also the objective of the Planning Commission. For obtaining regional development in a balanced manner, the Planning Commission allows for the factor of relative backwardness in the structure, strategy and substance of the Plan. But the Finance Commission ignores the Plan expenditure of the States which is in fact supposed to be the leveller of regional disparities. The Planning Commission, on the other hand, leaves out of its consideration the non-Plan revenue gap which is the basis of the Finance Commission's awards. Furthermore, complications arise also because of some differences in the objectives of these two bodies. The Planning Commission is generally pre-occupied with the growth objective while the Finance Commission concerns itself predominantly with equity objective.

Thus, it would be seen that the existing dichotomy in the functions in granting of Central assistance has not resulted either in devising consistent and rational criteria for Central assistance or bringing about its allocation among States, consistent with the Plan objectives. What is necessary thus is to combine the economic function of allocating Central assistance with the quasi-judicial function implicit in the Commissions' award.

To achieve all this, there should be a clear idea about the purposes of Central assistance which are the following :

(1) that broad planning priorities are observed; (2) that these priorities are adapted to the States' individual needs; (3) that the States are given the strongest possible incentive to develop and tap their resources; (4) that all resources, whatever their origin, are employed with the maximum economy and efficiency; and (5) that the States are encouraged to contribute creatively to the planning process.

A point may be raised at this stage whether the Planning Commission itself would be able to combine the functions of the Finance Commission with its own so as to achieve the above objectives of Central assistance. Such experience as is available suggests that the Planning Commission is hardly the agency to undertake this important function. The manner in which the Planning Commission decides upon allocation of plan assistance from the Centre to the States has resulted in distorting the planning process at the State level. The States, under the existing practices, are more interested in insisting on such schemes in their respective plans as would entitle them to obtain larger assistance from the Centre than schemes which would conform to the prevailing resource endowment and needs. The eventual horse-trading between

the States and the Centre has led to a haphazard formulation and implementation of plans at the State level and a consequent mis-allocation of resources.

Furthermore, there is not that degree of impartiality in the decisions of the Planning Commission as characterises the quasi-judicial awards of the Finance Commission. The political factor has a larger weightage in the deliberations of the Planning Commission as it is constituted at present. This points up the need for setting up an independent authority to discharge the functions as regards allocation of Central Assistance, the nature of which would be indicated later in this Section.

#### *Procedures regarding release of Central assistance*

Next in importance to the machinery charged with determination of the quantum and pattern of Central assistance is the problem of the appropriateness or otherwise of procedures and forms relating to the release of Central assistance for the use of the State Governments. Here again the problem is accentuated only in regard to Plan assistance from the Centre; the statutory assistance is almost automatic. But in regard to the assistance released for Plans, the Central Ministries as also the Planning Commission have to see that it is properly utilised for the projects stipulated. After all, the responsibility for executing the Plans—be they State Plans or the Centrally sponsored schemes—vests with the State administration at each level. The control is directed over the execution of these schemes firstly from the relevant Central Ministries, the Planning Commission and the multitude of specialised All-India Boards and Commissions such as Khadi and village Industries Board, Cotton Development Board, etc. The procedures involved, however, may be very cumbersome, dilatory and time-wasting as actually happened in the early stages in India. Though reforms in these have taken place in many ways (*see Appendix IV*), still the basic problem of relating the assistance to expeditious implementation of Plans at State levels remains.

The assistance used to be released on the basis of 'recoupment principle' and the 'matching principle'. Under the former, the initial outlay toward the total cost of a scheme has to be met first by States from their own resources and the Centre's share was recovered by the Accountant-General of the State, after ascertaining the actual expenditure incurred under a scheme and the assistance due from the Centre. Under the latter principle, Central assistance for a scheme is given

on the condition that a corresponding share of the total expenses is met by the State. The matching assistance from the Centre is further divided into a grant portion and a loan portion. As it turned out, this principle was stretched to a point where a large number of varied patterns resulted.

The assistance given on the recoupment principle naturally tended to strain the finances of the State Governments and more so when there was delay in regard to timing of the Central assistance. The assistance given according to various patterns leads to considerable difficulties in the execution of plans by the State Governments. Realising all this, three important steps were taken since 1958:

(i) The procedures for financial sanctions were simplified in most of the cases excepting a few categories; (ii) Development schemes under each head could be arranged suitably in groups between which virement could be made on certain conditions and (iii) the third change related to the procedure for the release of funds. Now 10/12th of the funds due can be easily obtained (Appendix IV).

Admittedly, these reforms have facilitated the smooth, frictionless release of Central assistance to the States and consequent progress of the Plan schemes. Any further change in them though desirable would have to reckon with the contradictions involved in Central assistance to the States however it may be organised. On the one hand, the relaxation of controls speeds the process of Plan implementation; on the other, it makes the enforcement of national priorities more difficult and the effective supervision of expenditure virtually impossible. It is this dilemma that has to be squarely faced. This is, in a way, a manifestation of the tensions in any federal set-up and it is exacerbated by the efforts directed towards planning a national economy of such diversification as India's. Further, the tensions between Centre bedevil planning relationship more so when national income and, therefore, the resources are not increasing faster.

All in all, therefore, it seems clear that neither the existing machinery—be it a Planning Commission or the Finance Commission—not the procedural reforms adopted from time to time are adequate for a rational allocation of Central assistance to the States and smooth implementation of the State Plans. Some machinery, therefore, has to be evolved which would enable the States to plan rationally and, at

the same time, to ensure smooth implementation of schemes and projects of national importance. The following proposals are made with a view to attaining these basic objectives.

#### PROPOSALS

The total Central assistance by way of loans or grants that is given to States falls into four main categories. First, there are statutory grants under the award of Finance Commissions. Second, plan assistance is given for agricultural programmes and other current outlays schemes. Third, the Centre provides assistance to the States for enabling them to implement Centrally sponsored schemes and finally, plan assistance is provided for specific identifiable projects of manufacturing nature or of infra-structural nature such as irrigation, transport, power generation, water works etc. Of these, the first category of assistance is automatic and on grant basis. The assistance under the second category is estimated on schematic basis but finally given under broad heads so that the States can utilise it on various individual schemes according to their preference and there is little Central control on its detailed actual use. This is partly on grant and partly on loan basis. In most cases also, the shortfalls in one head of development can be made good by excess spending on another head. Such sums are given by way of miscellaneous loans. The third category is in the nature of tied assistance. This also is on grant and loan basis. The last category of assistance is for identifiable projects. The element of grant is very small in this type of assistance. As observed earlier, it is the last three categories of assistance which fall currently within the purview of the Planning Commission.

We propose to reclassify all this assistance into three categories. The first one would include the existing statutory grants plus the assistance given for agricultural programmes. The second would cover the assistance given for the Centrally sponsored schemes, and the third category would include Central assistance for specific projects largely in the fields of power, major irrigation, transport and industry.

#### *I. Central Assistance : Non-discretionary Grants*

Now the first type of assistance should be solely on a grant basis and should be provided on automatic basis as is done under the Finance Commission's award. The total quantum of assistance under this category should be determined broadly on the basis of the current surplus of the Central Government. It appears from the budget

documents of the Central Government that the sum of total of statutory grants to States and Plan assistance to agricultural programmes broadly equals the current account surplus of the Central Government, excluding grants [Appendix III (a to c)]. It is necessary that appropriate criteria for allocating this type of assistance are devised. This function should be vested in a new body analogous to the existing Finance Commission which we call a modified Finance Commission. It is envisaged that this body would be permanent one and with a sufficiently high status and proper authority. It would devise criteria for allocating this assistance to the various States. A major portion of assistance may have to be given on some criterion based on population, area and relative backwardness and the remaining assistance on the criterion related to performance in agricultural output or employment or such other measure. This is to encourage the States to put emphasis on agricultural and other related programmes of national importance.

Since some proportion of this assistance, though automatic and on non-discretionary basis, is related to the agricultural performance of the States, the modified Finance Commission has to review each States' performance. For this reason, the award of the Commission would have to be at some interval so that the Commission can adjust its assistance according to the degree of achievement by each State in the field of agriculture. To coincide with the Five-Year Plan period the period of award may be of three years and two years alternately. This would facilitate a check without unduly long time-interval, on the use of assistance in the right direction without impeding its flow. It would also have the incidental advantage of maintaining continuity of assistance between Plans.

This modified Finance Commission would, of course, determine and devise criteria for disbursing Central assistance under the first category in the light of the strategy, priorities and resource availability as laid down in the Plan. While thus it would broadly conform to the Plan, it would, of its own assess the availability of total resources and the portion of this that may be set aside for the allocation to States. Since the Plan mainly relies on estimates for the five-year period, this Commission would be in a more advantageous position to revise and modify these estimates, if necessary, on the basis of the actual position prevailing in the past. It is true that even then it would not be possible for the Commission to indicate precise magni-

tudes of assistance to various States for a period of two or three years which would be the duration of its award. In that case, the Commission may lay down the proportions in which assistance is to be purveyed to the various States.

The Commission charged with these functions should be headed by a person of eminence and of judicial bent of mind. His tenure should not be more than five years with a possibility of extension for not more than one additional term. But if he desires to relinquish office before the term, he should be allowed to do so after the award is given and fresh appointment may be made when the time for the next award would come. There should be two or three members of the Commission, preferably with economic and administrative expertise. It should have its own staff with necessary expertise to undertake various studies regarding tax potential, expenditure trends of States, regional development etc. Perhaps this body may like to absorb the existing staff of the Planning Commission dealing with Centre-State financial relations which would concern, itself primarily with the technical aspects of planning process and plan formulation both at national and State levels.

## *II. Central Assistance for Centrally-sponsored Schemes*

The Central assistance falling in category two *i.e.* assistance for the Centrally sponsored schemes should continue to be given on a scheme-tied basis, as it is meant for specific purposes. The genesis of Centrally-sponsored schemes has to be traced to the reluctance of States to undertake certain schemes of national importance; these related to schemes like Family Planning or schemes that would be of benefit to more than one State. Hence, the Centre offered to foot the bill by way of grants and loans depending upon each scheme. Hitherto there were about 126 schemes of this nature. Very recently the Planning Commission has modified its approach to this problem. More than one-fourth of the existing Centrally-sponsored schemes are going to be incorporated into the State Plans themselves. For this, the Central share of Plan outlay on these schemes would be available as a part of Central Plan assistance. The remaining schemes—about 90 in all—would continue to form a separate group as at present and would receive a grant from the Centre varying from 15 per cent to 100 per cent.

We feel that the existing distinction of Centrally sponsored category does not serve any useful purpose. If the Central Government

considers the implementation of some schemes imperative in national interest, they should be liberally helped by the Centre. But they should form a part of the State Plan and the Central assistance should be given to States for implementing these schemes in the same manner as other plan assistance is given. Since it is necessary that the assistance should be used for specific purposes, it should be made available on scheme-tied basis. The criterion for determining the nature and number of schemes would be indicated when the Planning Commission would finalise the national and the State plans.

### *III. National Development Bank—Its nature and functions*

It is in regard to the third category of assistance *i.e.* Central assistance to States for financing identifiable projects in fields like power, transport, large scale irrigation and manufacturing projects that we propose a radical departure from the existing practice. All Central assistance currently given for these projects should be channelised through the National Development Bank so as to ensure its effective and efficient utilisation.

Financial resources to be used for these projects in the light of the national Plan would be transferred to the proposed National Development Bank.\* The power to borrow for the purposes of development in the domestic market as well as from international sources should be vested *exclusively* in this Bank. It could borrow in the domestic market not only from the financial institutions but also from the households and the corporate sector. It could also borrow from the foreign governments as well as international agencies. Its securities will be guaranteed by the Central Government.

Thus, apart from a portion of current surplus of the Central Government (excluding the capital expenditure on defence and administration and grants given to States), the Bank would be in possession of such other resources as can be raised by borrowing in India as well as abroad.

This Bank would give loan assistance by and large to statutory corporations and companies in the public sector. This would mean that all Government enterprises in the fields of transport, power and industries and where possible also irrigation should be organised as

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\*This Bank as envisaged here would also finance similar projects falling within the jurisdiction of the Centre.

corporations and/or companies. Perhaps, it may not be possible for the Development Bank to take up all these projects for financing at the first stage. In that case, a beginning may be made with a few projects and gradually as the experience and expertise accumulate it may extend its operations to wider circle of projects.

Three considerations have to be kept in view as regards the functioning of this Bank. First, this Bank should deal with *only* loans. Second, the assistance which might be purveyed by the Bank to the State Governments should be governed by the condition that the States should foot the bill in financing the projects up to a stipulated limit, say, 50 per cent. This is necessary in order to induce the States to put in greater effort to raise resources for the projects undertaken within their jurisdiction. Third, there might be need to introduce softer types of loans on the analogy of the International Development Association—an affiliate of the World Bank. Such loans would mainly be for the infra-structural projects like irrigation, transport etc. where the social rate of return is higher than private return. The softness of loans would be in the form of liberal conditions governing the repayment schedule or the rate of interest to be charged on loans or both.

The broad sectoral as well as regional pattern of assistance would be determined by the Planning Commission. However, the assistance for individual projects—whether State or Central—would be left to the discretion of the Bank and would depend on the rational appraisal of the planned projects and their actual implementation.

For this purpose, the Development Bank should have adequate trained staff to appraise projects as well as supervise and watch the performance of selected projects. At present, some such staff is there in the various States as well as Central Ministries and this could be transferred to this Bank. Further, the Bank can avail itself of the services of technical consultants here as well as abroad. This would enable the country to pool its technical talents at one place and make its most effective use. As the Bank evolves, it could provide technical and managerial assistance to the various enterprises and even assist them in designing and formulating projects. In various fields, it can maintain a list of technical consultancy services available here and abroad and in cases where its own staff is inadequate, would arrange the required assistance from these consultants.

Such a Development Bank would improve the Plan implementation process in several ways :

- (1) The selection of projects would be done, as far as possible, on the basis of rational criteria, evolved on the basis of Plan objectives.
- (2) Projects would be judged on economic principles.
- (3) The Bank would be able to identify the causes of delays and waste in the implementation of projects and render useful technical assistance to remove the deficiencies in the process.
- (4) In view of delays in implementation of some projects, the Bank would be in a position to switch over resources from such projects to other worthwhile projects and thus ensure optimum and effective utilisation of its resources.
- (5) The Bank would induce the public sector enterprises to formulate and implement projects in a business-like way.
- (6) The location of projects would not become political issues but would be judged on the basis of rational criteria.
- (7) The use of resources would be tied down to efficiency in performance.
- (8) The scarce technical and managerial talents would be used most effectively.
- (9) The mobilisation of financial resources would be done on sound business principles.
- (10) The foreign governments and international agencies would be willing to extend assistance to the Bank run on business principles and thus the 'political element' in such assistance would be minimised.
- (11) The terms and conditions for external assistance would be negotiated in a business-like way and would not become a political issue to the extent to which it becomes at present.

By centralising these functions, as well as the function of raising financial resources, it would be possible to evolve a sound investment programme and ensure an optimum and effective use of resources. This would minimise the play of the irrational and arbitrary elements in the development process and the administrative and political organs of the Government would be able to perform more efficiently than at present their functions, once the specialised technical functions are taken away from them. Thus, there would be a considerable gain in

efficiency and, in consequence, the functioning of a democratic process would be facilitated.

We may now briefly spell out the relationship between the re-organised Planning Commission, the modified Finance Commission and the National Development Bank. Implicit in the scheme of things as envisioned here is the need to take a comprehensive, integrated and cohesive view of the planning process in the context of the Centre-States financial relations. This naturally calls for a large degree of co-operation and co-ordination among these three bodies. This can be ensured if some links are forged between these bodies at the highest level. One way of doing it is to make one or two members of the Planning Commission Vice Presidents of the proposed National Development Bank and the modified Finance Commission. This sort of inter-linking on an organisational level would help to maintain consistency and realism between planning process on the one hand and its efficient, expeditious and effective implementation on the other all along the line.

#### *SECTION IV*

#### BORROWING

Another aspect of the Centre-States financial relations pertains to the borrowing by the State Governments from the Central bank of the country *i.e.* the Reserve Bank of India and the public. We have already examined the procedural aspects of loans to the States from the Central Government in Section III; in this Section, we would analyse the procedures governing the States borrowing from the Reserve Bank and the public and make suggestions on the basis of that analysis.

In the complex of Centre-States financial relations in a federating entity like India, the borrowing powers of the constituent units have come to assume vital importance in view of their special connotation. The clear demarcation of the types of taxes as between the Centre and units and the devolution of the tax resources of the Centre to the States are no doubt important issues in so far as smooth functioning of the federation is concerned; but the borrowing power and the obligations of the constituent units have far wider implications since they affect the overall economic policy of the union as a whole. Even

within this, the transactions between the units and the country's central bank are more far-reaching in implications for the Centre-States financial relationship than the former's borrowing from the non-central bank/public. For one thing, any credit obtained by the States from the Central bank leads to expansion in money supply, regulation of which is appropriately the prerogative of the Central bank as it is the money-creating institution. For another, any action of this sort by the State or States creates complications for the Central Government in regard to a pursuit of monetary and fiscal policy, both in its internal and external aspects and thus tends to endanger the financial stability of the entire economy. Hence, in most of the Federations, the constituent units are either discouraged from borrowing from the Central Bank or, if allowed access to it, the powers are restricted through some device or the other.

The power to be in debt in general and to the Reserve Bank in particular has to be studied in a given context of constitutional provisions governing the Centre-States financial relationship. The relevant provisions *i.e.* article 293(3) & (4) of the Indian Constitution stipulate that "A State may not without the consent of the Government of India raise any loan, if there is still outstanding any part of a loan which has been made to the State by the Government of India or by its predecessor Government or in respect of which a guarantee has been given by the Government of India or by its predecessor Government" and that "A Consent under clause 293(3) may be granted subject to conditions, as the Government of India may think fit to impose". These Constitutional provisions clearly point to the fact that basically the State Governments' ability and power to borrow from any person or institution is dependent on the discretion and consent of the Central Government and in consequence the latter may curb it if considered necessary in the given circumstances.

#### *Procedures regarding Borrowing from the Reserve Bank of India*

Let us first take up the procedures governing borrowing transactions between the State Government and the Reserve Bank. The loan transactions between the State Governments and the Reserve Bank take mainly three forms. First, loans are purveyed to the State Governments under what is known as normal Ways and Means Advances. The basis for devising these limits had been related to the minimum balances which each State is required to hold with the Reserve Bank. Before

1953, all part A States were permitted to borrow from the Reserve Bank in this form, to the extent of their minimum balances held with the Reserve Bank. Since 1953, these limits were raised to twice the amount of the minimum balances. This lending is almost automatic once a request comes from the State Government concerned and does not involve any complicated procedures. For the purpose of availing of this facility, the State Governments are required to execute a promissory note for the entire limit of advances and a letter of continuity (renewal) if necessary is obtained on July 1 every year. Under a revised procedure introduced from September 19, 1965, the promissory notes are to be renewed once in two years.

Second, there is a further quota of borrowings of the State Governments from the Reserve Bank which is known as a special Ways and Means accommodation. The theoretical limit for this type of advance is Rs. 2 crores and is granted against hypothecation of Central Government securities. In practice, this theoretical maximum is not always adhered to, the outer limit being allowed to vary with the size of the Central Government securities the States are in a position to pledge. The procedure for this is a little more elaborate and less automatic. The State in need of special Ways and Means advances makes an application to the Reserve Bank—*i.e.* the Secretary's Section, for the amount required. The Reserve Bank, after allowing for a margin of 5 per cent in the case of securities maturing after 10 years and 10 per cent in regard to those maturing beyond 10 years, makes the necessary advance. The State concerned then arranges for the hypothecation of the securities and issues a demand promissory note covering the entire amount of advances. These loans are normally repayable within three months but can be renewed after expiry of the usual period. In practice, however, it is the Reserve Bank which takes the initiative in this matter and finds out from the concerned State Government about the extension of these advances. In the nature of things, loans in this form call for adjustment as and when the price of the securities pledged fluctuates. Thus when the size of the securities changes either as a result of the maturing of certain securities pledged or variation in their prices, the Reserve Bank adjusts the loan amount by keeping the usual price margin referred to above. The debtor Governments clear the amounts borrowed either through authorising the Reserve Bank for sale of the securities pledged or making good the amount out of normal budgetary receipts.

Third, there is an extraordinary form of borrowing by the State Governments which is known as "overdrafts". These are unauthorised in the sense that no prior arrangements are entered into between the borrowing State Governments and the Reserve Bank. Such borrowing occurs when the State Governments draw cheques on the Reserve Bank in excess of their balances with it. In view of the delicate relationship with the State Governments, the Reserve Bank cannot dishonour these cheques. All that it does under the circumstances is to draw the attention of the State Governments to the debit balances and to request them to clear them as quickly as possible. More often than not, this is followed by reminders and even discussions with the Finance Secretaries. The Central Government is also kept informed of the position. Sometimes these overdrafts are cleared through adjustment against Central assistance to the concerned State for Plan schemes sanctioned by the Government of India. However, it is a rare occasion that these overdrafts are cleared in this manner. All sorts of political considerations supervene and eventually it is the Central Government which is left to hold this unwanted baby.

The unauthorised overdrafts are an anathema to the accountants and rightly so. Hence the auditors insist on their clearance by the end of the accounting year of the Reserve Bank. Since the defaulting State Governments are scarcely in a position to do so, the Central Government takes over the debit balances. Thus the State Government's debt undergoes a metamorphosis and results in being a liability of the Central Government, which treats, them as a special loan to the concerned State. The repayment schedule of such loans is then fixed in consultation with the defaulting State Government though there is no standard procedure for the purpose.

Let us now deal with the question of the change, if any, in the procedures and practices, involved in the State Governments' borrowing from the Reserve Bank. This question has to be tackled from the point of view of ensuring harmony in the Centre-States financial relations on the one hand and smooth functioning of the plans to which the States are committed, on the other.

As observed above, the borrowing power of the State Governments is highly restrictive and is subject to regulation by the Central Government at least in terms of Constitutional provisions. It follows,

therefore, that the Central Government can direct and guide through the Reserve Bank the State Governments about the form of their borrowings, the choice of their lenders, and the amounts so that the actions of the latter do not run counter to the objectives, policies and the overall strategy of the Central Government especially in the context of planning. It can do this essentially in two ways. First, it may ask the Reserve Bank to take into account the emerging needs of the State Government while refixing their borrowing requirements from the Reserve Bank from time to time. The Reserve Bank then may lay down fool-proof procedure in a manner that it would not be easily possible for the State Governments to overdraw their accounts. Second, it may ask the Reserve Bank to lend to the State Governments in certain fixed proportion to their current resources or not to lend at all to them. Instead, the State Governments may be asked to meet their short-term credit needs from the Commercial Banks.

The first type of solution is easy to comprehend and easier still to devise. But the difficulties to be encountered in its implementation are not so much of the procedural or administrative nature as of economic and political import. If the credit requirements of the State Governments arise in consequence of any lack of effort on their part in mobilising tax resources while continuing their commitment to plan expenditure, the deficit arises as a result of jacking up of expenditure outside the plan, it would mean that the commitment to borrow from the Reserve Bank is pre-planned and deliberate. Since the issues involved in this sort of difficulties are economic, they need to be faced and tackled on a different plane.

In the case of financial laxity, the problem of devising an appropriate mechanism lends itself to simple remedies. In this respect, the State Governments' borrowing from the Reserve Bank in the form of normal Ways and Means Advances and special accommodation does not pose any problem. If it is found that the size of the State budgets has expanded and following from it their requirements of the short-term accommodation have increased, the Central Government in consultation with the Reserve Bank can always review and refine the existing procedures and practices underlying such borrowing. This is in fact being done. After all, the idea behind such borrowings by the State Governments is to cover the temporary short-falls in their receipts—so that their commitment to budgeted expenditures should not be adversely affected. On the basis of the trends of the State Governments' resources

and expenditures and their size, a realistic measures for fixing borrowing limits can be easily found.

But a major difficulty arises about the manner in which the Reserve Bank can prevent the State Governments from over-drawing their accounts with itself. To the extent that it occurs because of the procedural loopholes, certain changes, in the supervision, audit and accounting can be thought of. Before doing so, it would be useful to search for the causes, other than those of purely economic nature, which are likely to lead to unauthorised overdrafts by the State Governments.

The following may be some of the principal causes of the State Governments' overdrafts :

- (a) In view of the sprawling machinery of the State Governments, it is possible that the disbursing official widely spread spatially may draw amounts from the consolidated funds of the States in excess of the balance in the funds at any given point of time.
- (b) Payments by any State Government on account of other State Governments and the Central Government may make temporary dent on the State's resources.
- (c) The resources of the State Governments have been, of late, overweighed with a substantial Central assistance--either grants or loans and the delay in receipt of this assistance may create a temporary shortfall in resources as the committed expenditure is a continuing one.
- (d) Any extraordinary item of expenditure might be necessary in view of the unanticipated developments in the economy. Famines, or floods are cases in point.

The nature of changes in the procedures and practices governing borrowing from the Reserve Bank would be clear by analysing each of the above causes of the overdrafts. Taking first (b), (c) and (d), the appropriate mechanism can be easily evolved. The impact of the cause (b) is not large. It is possible to arrive at a figure of the amount required to put such a transaction through on the basis of past experience and get it included in the limits fixed from time to time for Ways and Means Advances from the Reserve Bank.

The difficulties posed by the cause (c) are also easily surmountable. In fact, the procedure under which the Central Government channelises resources to the State Governments, be they tax devolution, grants under the Finance Commission's award or the Central assistance for the Plan schemes, are greatly simplified in recent years as observed in Appendix IV. Under the changes in the procedure proposed in Section III, there would not be any need to resort to overdraft on this account.

The dent on the State Governments' resources as a result of unforeseen circumstances such as famine or floods, is also taken care of under the new scheme of Central assistance for this purpose. It seems that the Central Government is about to introduce a scheme through which it would foot the bill to the extent of 75 per cent of the excess expenditure on these heads, over the accumulated provisions as per the Finance Commission's recommendations. Similar measures may also be thought of for other types of extraordinary expenditure, such as expenditure on border police force during war.

In order to prevent occurrence of such situations, arrangements such as introduced by the Maharashtra Government would suffice.

*Suggestion 1*      Under these arrangements, various disbursing officers are given limits of the grants which they can spend, as soon as the voting for grants is completed. In doing so, the Finance Department normally stipulates the limits lower than what is voted for in order to leave some leeway. At the end of each month, the disbursing officer has to reconcile the figures of expenditure in consultation with the Accountant-General of the State. In addition, an abstract of expenses by major heads is obtained between the 10th and 20th of the month, from the Accountant-General by the Finance Department. This abstract enables the controlling officers in the Finance Department to check the pattern and magnitude of expenditure with the grants voted. If any excess expenditure is found by the controlling officer, the matter is immediately taken up with the authorities concerned and the exact point where it has occurred is easily traced. It is in such a manner that the control over excess expenditure is exercised. To the extent that overdraft of the State Governments occurs as a result of such procedural lapses or lack of control, these arrangements would help. We do not know whether such practices are prevalent in other States. If not, we would strongly commend the arrangements which the Maharashtra Government have adopted.

However, we feel that the problem of overdrafts of the State Governments cannot be solved by procedural reforms alone. The origin of these overdrafts lies mainly in political and economic factors and they would not be prevented unless some thought is given to the choice of agency which acts as an involuntary lender of the State Governments under the existing conditions.

The excessive reliance on the Reserve Bank by State Governments is deleterious from the point of view of stability in the Centre-States'

*Suggestion II* financial relations mainly because of two factors.

For one thing, the States which run into the red persist in this practice in the belief that the Reserve Bank would never dishonour their cheques. Since such a borrowing is inflationary in its impact, particularly in the present conjuncture of economic forces in the country, the entire economy would be thrown in jeopardy. For another the habit of those States which tend to overdraw their accounts with the Reserve Bank is bound to prove infectious as the time goes on, inducing the States with the financial rectitude also to do like-wise. The feeling is thus likely to go round that the profligacy pays. It is these two dangers that have to be removed by the changes in the practices regarding credit from the Reserve Bank.

One way to do so is to put limit through a *Constitutional provision* and/or the provision in the Reserve Bank of India Act—Preferably the former—on the States' borrowing from the Reserve Bank. If, for instance, it is provided in the *Constitution* that the State Governments' borrowing from the Reserve Bank should not go beyond a certain proportion of their current revenue resources at any point of time, it would be an effective safeguard against the recklessness of the State Government. This practice is prevalent in many foreign countries, such as, Malaysia, the Philippines, Canada, West Germany, etc. Though it is effected through a provision in the Central Bank's Act. It follows that such a restriction would also apply to the Central Government's access to the Reserve Bank. Such arrangement would leave a certain degree of flexibility. As resources of Government increase the absolute level of permitted borrowing would go up automatically.

Alternatively, State Governments may be asked to borrow from the commercial banking system only. The corollary of this would be to transfer the balances of the State Governments to the commercial banks. By so doing, the whole credit transactions of the States would be

placed on par with other transactions motivated by commercial considerations. And once the States are subjected to business discipline, they would in course of time observe the rules of the game. The commercial banking system on its part would also insist on certain limits on credit granted to the State Governments as they, unlike the Reserve Bank cannot afford to extend credit without restraint, in view of their concern with the liquidity-ratio. The Reserve Bank may also regulate it, in case the banks overstep the limits, through the normal machinery of credit control. There is nothing unusual in this procedure. For, in the U.S. the units keep their balances with the commercial banks and also draw credit from them in the event of need. Furthermore, through this change, the political considerations which disturb the harmony of Centre-States' relations can be taken away from the arena of credit transactions of the State Governments.

The above suggestions would take care of the *direct* requirement of finance of the State Governments, to tide over temporary difficulties. But there may arise occasions, for borrowing from the Reserve Bank to meet *indirect* demand say for financing some essential projects. In such exigencies, however, the proposed Development Bank may approach the Reserve Bank for accommodation. This would be preferable as the credit obtained by the Bank would be for specific productive purposes. In fact such arrangements would be a counterpart of those prevailing in regard to Reserve Bank lending to commercial banks and other term-lending institutions.

#### *Borrowing from the Public*

We may now discuss the problems arising from the State Governments' borrowings from the public. At present, each State Government borrows, every year, from the market separately. However, there is a certain amount of co-ordination implicit in the borrowing programme of the State Governments. Every State Government has to approach the Reserve Bank to decide upon the magnitude and the conditions of its borrowings. The latter considers such requests in the light of the prevailing economic conditions, the estimated availability of investible funds and the requirement of the Central Government. This implies a certain degree of co-ordination.

And yet, the practice of each State approaching the market for loans has not succeeded to the extent necessary. There are a variety of reasons for this phenomenon, but we would draw attention to three important ones. First, the existing system regarding borrowings by the

State Governments led inevitably to heavy discounts on the loans of certain States. It should be realised that the presumption that all Government loans should have the same degree of appeal to the investing public, in view of the imprimatur of the Government, is not valid under Indian conditions. The market for the State Government loans is not one single entity. For one reason or another, the public have come to rate the credit standing of certain States higher than the other. Furthermore, certain States are known to force some rich individuals in their territorial jurisdiction to subscribe to loans at the time of floating a loan. As a result, such holders of State Government securities begin to disgorge their holdings the moment the loan is closed, leading to heavy discount on these loans.

Second, the Central Government loans are always considered to command higher prestige than the State Government loans. In view of this, the latter have smaller degree of marketability.

Finally, the main purchaser of the State Governments loans are the State Governments themselves. The proportion of the subscription to these loans, either on a reciprocal basis or by the borrowing State Governments themselves out of their own funds has gone up substantially and is now around 28 per cent. This implies that if one centralised loan programme is organized, the cost of raising loans would be less than when different States do so.

In view of this, we feel that it would be a good idea if the borrowing of all the State Governments is centralised. We  
*Suggestion* are aware that this experiment was undertaken on two occasions in 1954-55 and 1963-64 without any conspicuous results. Yet we feel that it should be given a fair trial in future on a systematic basis. After all, the pool of resources to be tapped either by the Central Government or the State Governments is common and given at any point of time. Once the public fully realises that there would be only the Central Government securities, it would gradually get used to it and once that happens it would be guided in its investment decisions by the purely economic considerations of liquidity and the rate of return.

If this suggestion of a centralised borrowing programme is accepted, it can be undertaken by the Development Bank proposed in Section III. It is both logical and inevitable that this task should be taken over by the Bank. We envisage that the Bank would obtain resources not

only from the Central Government but also from institutional investors such as commercial banks, the L.I.C. and other insurance companies, etc. Since it is these institutions which give the main support to the Government loans, it is but proper that the proposed Development Bank is vested with the job of raising loans in the market.

It might appear that if a power to borrow is vested in the proposed Development Bank, it might create certain problems both for the Central and State Governments, in regard to certain projects or schemes, the expenditure on which is met out of borrowing. However, the problems that may be raised are not difficult to solve. Under the proposed arrangements only the borrowing in the form of marketable securities would be transferred to the Development Bank. But the Central Government, as explained in this Section, would continue to raise loans from the public in the form of Post Office Savings Bank and Cumulative deposits. The amounts so raised should normally suffice for the items of non-business expenditure normally met out of borrowing. If, however, the level of such expenditure tended to exceed the amount of resources raised, it would be open to the Central Government to borrow either directly from the market or from the proposed Development Bank though our preference is for the former course. In any case, the size of such requirement may not be large. As the Development Bank would have the necessary staff and expertise, it would be cheaper for the Government to procure funds from the Bank than from the market.

So far we have confined ourselves only to the market loans. We have now to consider what should be done about the small saving instruments. Though this programme is organised by the Central Government, the States have a stake in it, in so far as they are given 66½ per cent of the funds raised by them in the form of Saving Certificates, within their jurisdiction. However, the Small Savings Scheme, as it is operated, has not succeeded in its aim and the question arises whether it should not be modified along new lines. Such analysis as has been made available to us shows that there are many disturbing features of the small savings schemes which cast a shadow on the future success of these schemes. For one thing, it is found that large support to savings certificates has come from the provident funds and the rich individuals. As for the former, the main agency is the provident funds which, in any case, would mobilise savings and invest their resources in market loans of the Government. It is not necessary to devise small savings instruments for this purpose. As regards the rich individuals,

they invest their funds in these instruments in order to get exemption from the tax. They would save and invest in any case and if the yield on Government securities is adjusted suitably, they may as well invest in marketable securities of the Government.

Secondly, it is observed that the cost of sale of certificates to the low-income groups is even higher than the net proceeds from the sale of certificates to them. The organisation of small savings instruments for this purpose, thus, is a very costly operation.

Thirdly, the real success of the Small Savings Schemes is achieved in regard to post office savings deposits. It appears that the post office savings banks have been able to tap the saving potential in rural and semi-urban areas.

We wonder, in the light of these observations, whether it would be desirable to confine small savings schemes only to mobilisation of rural savings and dismantle other schemes. Such saving as would have flowed into small saving certificates would then go into the marketable securities of the Government. Even in regard to the post office savings banks, it would be much more advantageous to mobilise savings potential through a separate corporation or a Bank managed autonomously. This would be in line with our other recommendations as regards an institution for directing Central assistance. Apart from this fact, it would help to ensure a more efficient operation of the work with a sufficient degree of decentralisation of functions.

## SECTION V

### MAJOR CONCLUSIONS

In this Section, the major conclusions that emerge from the foregoing discussion are summed up.

A. The important considerations that have weighed with the Group in suggesting the nature of reforms in the procedures and practices relating to State finances and Centre-State financial relations are the need (i) to uphold and strengthen the unity of the country through such Central sanction and conditional freedom to the States as may be necessary to bring about the desired pace and pattern of socio-economic development, (ii) to limit the range of effective political decisions

to fields for which the democratic method is suitable and to facilitate the rational attainment of the objectives.

B. The reforms proposed in the sphere of State finances are the following : (i) since the budget represents an instrument of the Plan and since the approval of the budget has to be a political decision, the legislature should have enough information on the past performance, Plan objectives and the manner in which the budget seeks to attain them. To bring out the issues for political decision sharply, a *Budget Committee* of the legislature should report to the legislature with regard to the relationship of the budget with past performance and the Plan objectives; (ii) the budget should cover comprehensive statement of all Government activities in order to facilitate the measurement of the impact of Government action on the economy. This calls for inclusion in the budget of not only the departmentally-run enterprises but also the public sector enterprises which are organised as corporate bodies; (iii) since the Plan embraces the whole economy and the budget is an instrument for realising the Plan objectives, it is necessary that the economic classification of the budget should accompany the other budgetary documents as is done in regard to the Central budget; (iv) the budget should be fitted into the Plan framework and presented in such a way as to bring out clearly its relation with the Plan. Plan expenditure should cover all current as well as capital expenditure in the public sector; (v) the budget is an action programme and no action programme can be formulated without detailed project reports. For this reason, the budget should be based on schemes which are already well worked out. This would reduce delays, induce greater sense of responsibility and accountability in the spending agencies and enable the finance departments to control the pace and pattern of expenditure much more rationally than at present; (vi) the various spending agencies should be induced to plan ahead for at least five years and for much greater number of well worked out projects than what they could implement in a year or two. This would help to budget more realistically for the expenditure.

C. There is a need for setting up a Finance Commission on a permanent basis to discharge the function of allocation of Central assistance falling in the following categories : (a) statutory grants as given under the present Finance Commissions; (b) Plan assistance both by way of grants and loans which is currently given for agricultural and other social programmes; (c) assistance given to the States for

implementation of Centrally-sponsored schemes. The first two types of assistance should be *solely* on a grant basis and provided on automatic basis. The quantum of assistance so given should be determined broadly on the basis of the current surplus of the Central Government. It would devise criteria for allocating this assistance to the various States. A major portion of assistance may have to be on the criteria based on population, area and relative backwardness and the remaining assistance on the criteria related to performance in agricultural output or employment. Since some proportion of this assistance, though automatic and on non-discretionary basis, is related to agricultural performance of the States, the permanent Finance Commission has to review each State's performance at some interval with a view to adjusting its assistance according to the degree of achievement by each State. The Commission may lay down the proportions in which Central assistance should be purveyed to the various States as it would be difficult to indicate its precise magnitudes. The Commission should be headed by a person of eminence and judicial bent of mind. His tenure should not be for more than five years with a possibility of extension for not more than one additional term. There should be two or three other members of the Commission, preferably with economic and administrative expertise.

The Central Assistance falling in category (c) that is, assistance for the Centrally-sponsored schemes, should continue to be given on a scheme-tied basis as it is given for specific purposes. The criteria for determining the nature and number of such schemes would be indicated when the Planning Commission would finalise the National and State Plans.

Over and above this, there is a fourth category of assistance, which related to the Central assistance for identifiable projects of manufacturing or infra-structural nature such as irrigation, transport, power generation, water works, etc. It is in regard to this assistance that the Group has proposed a radical departure from the existing practice. All Central assistance currently given for these projects should be channelised through the setting up of the National Development Bank so as to ensure its effective and efficient utilisation. The Bank would obtain its resources either by borrowing on its own from the public or from the current surplus of the Central Government after allowing for capital expenditure on defence and administration and

grants to the States. This Bank would give loan assistance, generally to statutory corporations and companies in the public sector. The assistance that would be given by this Bank to the State Governments should be governed by the condition that the States should foot the bill in financing the projects up to a stipulated limit. It may also undertake granting softer types of loans on the analogy of the International Development Association—an affiliate of the World Bank. Such loans, however, would have to be confined to the infra-structure projects like irrigation, transport, etc. where the social rate of return is higher than private return.

For the comprehensive, integrated and cohesive view of the planning process in the context of the Centre-State financial relations, it is necessary to forge links between the Planning Commission, the permanent Finance Commission and the National Development Bank. One way of doing it is to make one or two members of the Planning Commission Vice-Presidents of the proposed National Development Bank and the permanent Finance Commission.

D. There should be a limit on the States' borrowing from the Reserve Bank through either a constitutional provision or an amendment of the Reserve Bank of India Act. Through this, the limit of borrowing of the State Governments from the Reserve Bank can be fixed in certain proportion of their current revenue resources. Such a practice is prevalent in many countries such as Malaysia, the Philippines, Canada, West Germany etc. Alternatively, the State Governments may be prohibited from borrowing from the Reserve Bank altogether. They may be asked to borrow instead from the commercial banks for meeting their short-term credit requirements. The Reserve Bank can control the expenditure of the State Governments' borrowing from the commercial banks through the normal machinery of credit control. This is a practice which is adopted with success in the United States.

E. (i) There should be one centralised borrowing programme in the country and that should be undertaken largely by the National Development Bank. If the Central Government is required to float loans for non-business expenditure to be met out of borrowing, it can do so either by taking loans from the proposed National Development Bank or directly from the public.

(ii) As regards small savings, the Group felt that the emphasis should be only on mobilisation of small savings through the post office

savings banks as it felt that no *net benefit* accrues to the Government from the savings collected through the Small Savings Certificates.

Bombay, April 7, 1967.

(Sd.)

**Dr. D. T. Lakdawala** *Chairman*

(Sd.)

**Shri S. D. Deshmukh** *Member*

(Sd.)

**Dr. V. V. Bhatt** *Member*

(Sd.)

**Shri J. C. Luther** *Member*

(Sd.)

**Shri D. G. Tungare** *Member*

(Sd.)

**Shri K. Ramakrishna Iyer** *Member*

(Sd.)

**Dr. D. R. Khatkhate** *Convener*

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## **APPENDIX I**

### **COMPARABILITY OF THE DATA ON STATE PLAN OUTLAY AND RESOURCES AS REVEALED IN USUAL BUDGET DOCUMENTS AND THE PAPERS ON PLAN**

The figures of Plan outlay of Maharashtra appear in four documents of this Government. These are (1) the Financial Statement, (2) the civil budget estimates, (3) detailed estimates of the State Five-Year Plan schemes and (4) annual Plan of Maharashtra—Part II statements.

The civil budget estimates gives the total (Plan and non-Plan) expenditure, under various major, minor and detailed heads of account. For the purpose of presentation each major head is sub-divided into several minor heads. This document presents in a summary form the expenditure under each minor head and this is followed by a presentation of the details of expenditure under each minor head. The figure of Plan expenditure for each minor head is included in the summary under the caption "Schemes in the State Five-Year Plan". The civil budget estimates gives details of expenditure for all the minor heads given in the Summary, other than the minor head "Schemes in the State Five-Year Plan". Details of Plan expenditure are presented in the third document referred to above, namely, "Detailed Estimates of the State Five-Year Plan Schemes". The detailed heads under each minor head generally represent a scheme or a component of a scheme in the Plan.

However from this presentation it is not possible to identify the Plan outlay of this State under the several Plan heads and sub-heads of development since the budgetary classification by heads of account under the revenue, capital and loan sections does not necessarily correspond to the plan classification under the different sectors and sub-sectors of development. Secondly, since the budget details are presented Department-wise, and since some of the items of expenditure pertaining to a single programme or groups of activities relating to a similar programme may appear under different departments e.g. building programmes for agriculture, education, medical, etc. appear under the budget of the Buildings and Communications Department which constructs the buildings, minor irrigation by wells appears under the

Department of Agriculture and by tanks and bandharas under the Department of Irrigation and a wide range of activities relating to agriculture, minor irrigation, roads, education, health and other social services appear in an appendix indicating grants to Zilla Parishads. Plan outlay figures for each programme has to be culled out from different places. However a summary of the Plan outlay under the various sectors of development is given at the beginning of the detailed estimates. There is a serious lacuna in the budget documents as they do not give data relating to details of *actual* loan disbursements, under each item either in the civil budget estimates or in the Plan documents; such details are given only in respect of budget and revised estimates. As such, these documents do not give *complete* data on actual Plan outlay.

The document "Annual Plan" is intended to bring together the budgetary information and gives the figures of Plan outlay for each sectoral programme as well as details of outlay, scheme-wise, for each sector. In this document, the figures of Plan outlay are given in two parts—one relating to outlay on State Plan Schemes and the other to outlay on Centrally-sponsored schemes. The scheme-wise figures are given separately under each budget head for revenue account, capital account and loans and advances. The figures given in this document relate to actuals for each of the *preceding* years of the Third Plan, anticipated actuals for the current year (*i.e.* the year in which the budget is presented) and the budget estimates for the coming year. However, the document for 1966-67 gives *actuals* for the first four years combined (1961-62 to 1964-65), anticipated actuals for 1965-66 and budget estimates for 1966-67. The figures of Plan outlay given in this publication cannot be compared with the figures arrived at from the other two documents as the latter do not include the expenditure incurred from the internal resources of public enterprises *viz.* the Maharashtra State Road Transport Corporation and the State Electricity Board. The resources of these public enterprises are treated as resources for the State Plan, but not being part of the State's consolidated fund do not figure in the budget estimates. (Similarly in the Annual Plan 1966-67 a credit of Rs. 1.3 crore to be raised by Zilla Parishads has been taken and this amount is shown only in the Summary statement prefixed to Detailed Estimates of State Five-Year Plan Schemes, being outside the consolidated fund of the State.)

No other State brings out a publication corresponding to the Annual Plan Document issued by the Maharashtra State. However, except Rajasthan and Orissa (and Madhya Pradesh till 1965-66) all the others bring out the publication "Estimates of the State's Five-Year Plan Schemes" which is a Plan counterpart to the civil estimates of the respective States; Rajasthan and Bihar give details of Plan expenditure in the Civil estimates itself. As the figures given in these documents are also inclusive of outlay on Centrally-sponsored schemes, the figure of total Plan outlay arrived at from these documents does not tally with the figure of Plan outlay as available from other sources for each State—such as the Finance Minister's budget speech—which are in respect of State Plan outlay only. Actuals of outlay on Centrally-sponsored schemes are not available anywhere in these documents.

It is even more difficult to obtain a picture of resources mobilised for the Plan each year from the budget papers of any State; the Annual Plan Document of Maharashtra gives data only on outlay and not on resources.

The various components of Plan resources are (i) balance from current revenues, (ii) yield from additional taxation, (iii) net loans from the public (including those raised by the State enterprises), (iv) small savings, (v) contribution of public enterprises, (vi) unfunded debt, (vii) net miscellaneous capital receipts, (viii) withdrawal from reserves, overdrafts from R.B.I. etc. and (ix) Central assistance. Data are readily available in the budget papers on items (iv) and (vi) (Small savings and unfunded debt) and (ix). Miscellaneous capital receipts can be worked out from the data given in the budget papers. As regards the other items, it is difficult to work out these figures owing to non-availability of certain essential details. The budget papers do not give a break-up of tax revenue into (i) normal yield and (ii) yield on account of additional taxation undertaken during the Plan period. As such, it is not possible to compile the figures of balance from current revenues. Finally, while the budget papers give data in regard to withdrawal from internal reserves (cash balances, revenue reserve fund and cash balances investment account), and the overall deficit is mentioned the precise sources to meet the deficit, from open market borrowing or withdrawal from reserves or overdrafts from the Reserve Bank, are not indicated. Hence, one cannot measure the true extent of the deficit financing incurred by a State with the help of the budget documents alone.

## *APPENDIX II*

## **RESOURCES TRANSFERRED FROM THE CENTRAL TO THE STATES**

		(Crores of Rupees)															
		1951-52				1955-56				1960-61				1965-66 (R.)			
		Amount	As percentage of			Amount	As percentage of			Amount	As percentage of			Amount	As percentage of		
			A	B	C		A	B	C		A	B	C		A	B	C
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
I.	Statutory Grants	17	3.3	4.2	4.8	35	3.8	6.1	7.0	48	3.1	4.9	6.0	87	2.9	4.8	5.6
		(0.70)	(0.1)	(0.2)	(0.3)	(5)	(0.5)	(0.9)	(1.0)	(39)	(2.5)	(4.0)	(4.9)	(52)	(1.7)	(2.8)	(3.3)
II.	Devolution of Taxes and Duties	53	10.3	13.0	14.9	74	8.0	12.9	14.7	179	11.6	18.2	22.3	276	9.2	15.1	17.8
III.	Plan Loans & Grants	88	17.2	21.6	24.8	315	34.0	54.7	62.8	514	33.3	52.4	64.1	662	22.1	36.3	42.8
IV.	Other Loans & Grants													421	14.1	23.1	27.2
	(Bulk of this is for Centrally-sponsored Schemes)																
Total (I+II+III+IV)	.. ..	158	30.6	38.8	44.5	424	45.8	73.7	84.5	741	48.0	75.5	92.4	1,446	48.3	79.3	93.4
A. Total Resources of States	.. ..	513				926				1,543				2,994			

B. Own Resources of States (i.e. Total Resources minus Grants and Loans)	407	575	981	1,824
C. Own Resources of States (i.e. Total Resources minus Devolution of Taxes and Duties and Grants and Loans)	355	502	802	1,548

*Source :—R. B. I. Bulletin, April 1957, March and May 1966.*

*NOTE.—(1) Total resources of State include receipts on revenue and capital account but exclude Deposits and Advances. All loans and grants and Devolutions have been deducted to arrive at own resources.*

*(2) Details of grants and loans (Plan and non-Plan) are not separately available for 1951-52, 1955-56 and 1960-61. The figures of Plan Loans for 1965-66 are taken from Planning Commission's Papers owing to non-availability of complete data for some States in the budget documents.*

*(3) Figures in brackets against Item 1 relate to revenue gap grants as per the Finance Commission's recommendations.*

### APPENDIX III

#### (A) PATTERN OF CENTRAL ASSISTANCE TO STATES

*(Crores of Rupees)*

		1961-62	1964-65	1965-66
(1) Total Loans and Grants .. ..		691	1,022	1,212
(2) Loans for identifiable projects ..		328	495	584
(3) Grants for identifiable projects ..		55	63	57
(4) Total of 2 and 3 .. ..		383	558	641
(5) Loans and Grants to be met out of Current surplus (1—4) .. ..		318	464	571
Current surplus (excluding grants) .. .. ..		239	514	617

Note.—(1) Item 2 has been calculated on the assumption that 70 per cent of the total loans in the respective years would represent loans for identifiable projects. This is the same proportion as was observed for Plan loans.

(2) For working out item 3, only scrappy details of Plan grants for transport and industry were available. The proportion of these two items to total Plan grants was taken and doubled to allow for grants for irrigation and power. The proportions thus arrived at (roughly 25 per cent for 1961-62, 20 per cent for 1964-65 and 15 per cent for 1965-66) were applied to total (Plan and non-Plan) grants for the respective years.

Source.—Demand for Grants—Ministry of Finance, 1962-63, 1965-66 and Explanatory Memorandum of Central Budget 1966-67. Figures are revised estimates.

#### (B) PROPOSED PATTERN OF CENTRAL ASSISTANCE

*(Crores of Rupees)*

		1961-62	1964-65	1965-66
1. Grants by Centre .. .. ..		308	464	571
2. Loans to be disbursed by the National Development Bank .. ..		383	558	641
3. Total Assistance .. .. ..		691	1,022	1,212
4. Current surplus (excluding grants) ..		239	514	617
5. Excess (+) or shortfall (—) of 4 over 1		—69	+50	+46

This table is derived from Appendix III(A).

## (C) CENTRAL LOANS TO STATE PLAN SCHEMES

(Rs. in Crores)

Purpose		1961-62 (R.E.)	1964-65 (R.E.)	1965-66 (R.E.)
<i>Industry</i>				
Handloom Industry	.. .. ..	2.04	1.96	1.80
Handicrafts	.. .. ..	0.22	0.40	0.18
Silk Industry	.. .. ..	0.16	0.28	0.26
Development of Small Scale Industries		7.20	3.48	3.37
Industrial Co-operatives	.. ..	—	0.30	0.40
Industrial Estates	.. .. ..	4.00	2.39	4.00
Coir Industry	.. .. ..	0.18	0.14	0.10
Iron and Steel Industry	.. .. ..	1.00	—	—
Rubber Plantation Industry	.. ..	—	0.38	0.74
<b>TOTAL INDUSTRIES</b>	..	<b>15.20</b>	<b>9.33</b>	<b>10.85</b>
<i>Irrigation</i>				
Flood Control	.. .. ..	6.70	13.86	14.39
Minor Irrigation	.. .. ..	N.A.	—	61.02
Miscellaneous irrigation purposes	..	56.05	75.15	76.91
<b>TOTAL IRRIGATION</b>	..	<b>56.05</b>	<b>74.15</b>	<b>137.93</b>
<i>Other Schemes</i>				
Rural Electrification	.. .. ..	9.65	23.75	37.79
Community Development Projects	..	15.83	17.40	20.70
Co-operative Farming	.. .. ..	N.A.	1.46	1.17
Miscellaneous Development Schemes*		111.00	261.85	325.00
Agriculture	.. .. ..	33.59	71.22	28.80
Water Supply and Health Schemes	..	9.00	17.25	24.57
Housing Schemes	.. .. ..	19.45	7.89	8.64
<b>TOTAL LOANS</b>	..	<b>280.85</b>	<b>521.09</b>	<b>634.61</b>

*Source* : Demands for Grants of the Ministry of Finance for 1962-63, 1965-66 and 1966-67.

It is presumed that the bulk of this represents loans for multipurpose river valley, irrigation and power schemes.

*NOTE* : Items are not exhaustive.

## **APPENDIX IV**

### **BACKGROUND NOTE ON PATTERNS AND PROCEDURES OF CENTRAL ASSISTANCE**

With the advent of Planning, the Planning Commission has assumed an important role in allocation of financial resources to States to enable them to fulfil their State Plans. In the determination of the quantum of Central assistance, by and large, a major consideration has been to bridge the gap between the State's own resources and its Plan requirement. Central assistance has also been used by the Planning Commission for initiating the planning process in the States and for encouraging them to take up certain programmes, which the Centre considered to be worthwhile for achieving a certain measure of balanced development in the country. All this has led to the evolution of multiple patterns of assistance for individual schemes.

The history of the planning process during the first three Five-Year Plan periods shows that the Centre had to sponsor a number of schemes of national importance falling within the State's sphere and encouraging the States to undertake such schemes through providing Central assistance either on a 100 per cent or on a matching basis. Such schemes were initially called 'additional State schemes' in the first Plan period and subsequently described as 'Centrally-sponsored schemes' in the second and third Plan period. As the States themselves have included some of these schemes in their Plans, the category of Centrally-sponsored schemes is gradually assuming a secondary role.

The Central assistance allocated to the States for Plan schemes falls into two distinct categories, namely :—

- (i) Assistance to State Plan for its own schemes determined on the basis of gap between the State's own resources and the size of the Plan as determined by the Planning Commission, and
- (ii) Additional schemes sponsored by the Centre and Centrally-sponsored programme.

The quantum of assistance for the State Plan under category (i) is, by and large, determined on *ad hoc* basis. The patterns devised generally prescribe the assistance in the form of loan and/or grant on the basis of percentage varying from 25% to 100% depending upon the

importance of the schemes and prescribing a separate pattern even for recurring and non-recurring expenditure on staff, equipment and buildings.

These patterns have led to the following consequences :

- (a) The States are initiated to take up schemes without adequate planning and examination of the available local resources in manpower and materials for implementing the schemes;
- (b) The prescribed pattern required for staff, equipment and buildings content which is adopted by the States in order to earn assistance irrespective of the local conditions and situations for implementation;
- (c) The States' Plans are overburdened by multiple schemes, taken up from time to time as and when Central assistance is offered by the Centre on certain patterns during the course of Plan period also; and
- (d) The process of planning from below for schemes implemented at district, block and village level is, to a certain extent, hampered by the pre-determined patterns of Central assistance for individual schemes which fill up a substantial portion of the State's Plan content.

An attempt has been made of late to rationalise the principles for determining the quantum of Central assistance. It has now been decided that 70 per cent of the total allocable Central assistance for the five-year Plan will be distributed on the basis of population of the States. This would ensure a certain figure of Central assistance irrespective of the financial position of the State and its requirements beginning with the Fourth Plan. Nevertheless, a substantial balance viz. 30 per cent has been left for allocation on the basis of (i) a minimum Plan for each State to provide for development in Agriculture, Irrigation, Power and Social Services, (ii) special assistance to enable the States to complete large projects particularly irrigation and power projects within the Fourth Plan so as to yield physical benefits within the Plan period and (iii) assistance for programmes designed to remove lags in development in States which are below the national average. In addition, the Planning Commission would earmark a certain portion of Central assistance for being allocated to States like Jammu and Kashmir, Assam and Nagaland for meeting the special requirements of border areas and hilly areas.

The procedure for release of Central assistance has also been simplified. Till 1958, the Central Ministries used to release assistance to the respective administrative departments of the State Governments on the basis of progress of expenditure on schemes approved for such assistance. As the release of assistance was made only after submission of expenditure figures to the various Ministries, the State Governments had to find financial resources to meet the initial cost during the financial year. This created numerous difficulties to deficit States and prevented them from taking up developmental schemes according to Plan. In fact, in many cases the adjustment of Central assistance was made even after the close of each financial year.

In order to remove these difficulties of ways and means, the procedure for payment of Central assistance was revised in May 1958. Under the revised procedure, the following changes were made :

- (1) Three-fourths of the total assistance agreed to for annual plans of State Governments is released in the form of monthly ways and means advances beginning with the month of May for nine months.
- (2) The State Governments have to furnish to the Planning Commission quarterly statements of expenditure on State Plan Schemes and Centrally-sponsored schemes by due dates in the form prescribed by the Planning Commission and according to groups of schemes (and not scheme-wise).
- (3) The ways and means advances will be converted into loans and grants at the end of the year by individual Ministries on the basis of expenditure figures furnished by State Governments for the first three quarters and the estimated expenditure for the fourth quarter.
- (4) The procedure permits internal adjustment of Central assistance from one group of schemes to another group of schemes within the overall ceiling of Central assistance subject to certain limitations. Reappropriation of Central assistance from :
  - (a) River valley projects,
  - (b) Eradication of malaria,
  - (c) Special schemes of girls' education,
  - (d) Schemes operated by N.C.D.C., and
  - (e) Agricultural and cooperation schemes was, however, not permissible.

- (5) The final adjustment of assistance is made on the basis of percentage performance over the Plan as a whole, to be indicated by State Government on the basis of departmental actuals by the end of June in the succeeding year. The actual release of assistance is thus not related to pattern but based on actual expenditure and allocation which is related to pattern. So far as the Centrally-sponsored programme is concerned, the assistance is released with reference to pattern and expenditure.
- (6) Under a given head of development if the expenditure incurred exceeds the outlay planned the ceiling of Central assistance is maintained and if the expenditure incurred falls short of the outlay planned the amount of Central assistance is proportionately reduced (the proportion is applied by heads of development and not by individual groups of schemes).
- (7) The amount of Central assistance due on the basis described under (6) above is added to the 'Miscellaneous Development Loans'. The total is then checked against the overall Central assistance, that would be due to a State on the basis of the proportion of expenditure incurred to the outlay planned for the annual State Plan as a whole. Where the assistance due on the basis of the total expenditure exceeds the assistance calculated under (6) above, the difference is met by means of additional loans under the head 'Miscellaneous Development Loans'. In other cases the total assistance arrived at on the basis of what is due under each head plus 'Miscellaneous Development Loans' is allowed to stand. It will thus be seen that the final adjustment of Central assistance is made on the basis of percentage performance on the heads of development and on the Plan as a whole and not on the basis of pattern governing individual schemes.

In October 1964, the Government of India decided that with effect from 1965-66 the final adjustment of Central assistance should be made on the basis of audited figures of expenditure and not on departmental actuals as was being done in the past. The State Governments were requested to obtain expenditure figures duly reconciled from the audit and to forward periodical statements in prescribed pro forma to the Accountant General and the Finance Ministry. Apparently this has been done to ensure that the transfer of resources from

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the Centre to the States is actually utilised for incurring developmental expenditure under the Plan and that the resource is not diverted for non-Plan or non-developmental activities. A number of difficulties in furnishing audited reconciled figures are being experienced by most of the States because the classification of expenditure on Plan schemes and non-Plan developmental schemes within the same major head of account is not always correctly done at various levels. The Government of India have already been informed of these difficulties by most of the States and a senior Deputy Accountant General is now being appointed by the Accountant General of each State to maintain a proper co-ordination and liaison for correct classification of Plan expenditure within the major head of account.

Towards the end of the Third Plan, the financial situation in several States was getting difficult and the ways and means difficulties could not be completely overcome by the liberalised procedure for release of Plan assistance. A further liberalisation was therefore made during 1966-67 as under :—

- (a) Central assistance for schemes (State Plan schemes as well as Centrally-sponsored schemes) excluding assistance for River Valley Projects and assistance routed through the National Cooperative and Warehousing Development Corporation, will be made available as lump ways and means advances. Instead of three-fourths of the total assistance released in previous years 10/12th of the total amount will be released in 1966-67 in ten equal monthly instalments on or about 15th of each month commencing from April 1966.
- (b) The ways and means advances will be interest-free but the loans into which they will be ultimately converted or any uncleared balances of such advances outstanding at the end of the year will be deemed to have been made to the State on the 1st October and will carry appropriate rate of interest.

